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1 July 1983

# East Europe Report

ECONOMIC AND INDUSTRIAL AFFAIRS

No. 2417

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ECONOMIC AND INDUSTRIAL AFFAIRS

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INTERNATIONAL AFFAIRS

EAST EUROPE'S ECONOMIC PROSPECTS FOR 1983 VIEWED

Rome IL FIORINO in Italian 11 May 83 pp 14-15

[Unattributed article: "East European Countries' Situation and Prospects"]

[Text] Bulgaria

Situation in 1982--Easily comparable data on the Bulgarian economy for 1982 are not known, because the 1981-1985 economic development plan was approved rather late and went into force when 1982 had practically begun. Thus it seems advisable to verify some of the effective data registered in 1981 and officially made known through the international statistics, and to compare them with what was provided for by the plan. It should be stated at once, then, that in 1982 the Bulgarian national income indicated a new record, reaching a 4.5-percent rate of increase that no one had expected. It should be said, though, that at year-end and after review of the accounts, it is probable that that rate should be scaled down to + 3.6 percent--also because of the psychological counterblows struck in the international markets by Bulgarian economic policy's more marked alignment with that of the Soviet Union. The rate of growth of heavy industrial production was also maintained at acceptable levels, and this because the 5.6-percent rate registered at the end of 1981 is just a little lower than the 6.0 percent effectively achieved by the 1976-1980 economic plan. In particular, production of electrical and technical energy increased by 6.8 percent; steel production, by 6.4 percent; that of the metal-mechanical industry, by 6.6 percent; that of the electrotechnical and electronics industry, by 10.1 percent; that of the chemical and synthetic-rubber industry, by 11.1 percent; that of light industry, 5.4 percent; and finally, that of the food industry, 6.2 percent. Bulgaria's economic strength continues notoriously to lie in agriculture, and this is also because Bulgaria has succeeded in developing the food industry in addition to agriculture (whose productivity grew by 4 percent in 1981). The food-industry sector, in particular, provides for all of the country's staple needs, avoiding the discontent which, in contrast, subsists in other CEMA [Council for Economic Mutual Assistance] countries, generating considerable social tensions. The development of agriculture enables the country to export food products and agricultural raw materials to the nations of the CEMA. Nevertheless, the increase in convertible-currency exports achieved by selling foodstuffs to the oil-producing Arab countries was not up to the expectations, considering that it reached the level of 13.5 percent in 1981. As regards the metallurgical and mineral sector, the development was equal to only 98.3 percent of what had been fixed, while the sector that achieved the best result was energy.

Prospects for 1983--For some time, Bulgaria has been seeking partners, both Eastern and Western, indispensable for reaching the economic objectives set and oriented mainly toward the energy, metallurgical and chemical sectors, but also toward light industry and the tourism and consumer-goods sectors. The improvement aimed at lies principally in favoring the use of those raw materials that require a smaller quantity of energy for production, as well as the use of increasingly more highly perfected technological processes. The new plan in particular concentrates largely on the modernization, restructuring and expansion of existing plant, without neglecting the construction of new works. The agricultural sector too has been the subject of a program of further development, with the introduction of appropriate legislative modifications.

#### Czechoslovakia

Situation in 1982--The data made known by the Federal Office of Statistics in Prague during 1982 are those relative to the Development Plan results for 1981. From these results it can be noted that the general trend of the Czechoslovak economy, though reflecting the general situation of the socialist-bloc countries, presents, on the eve of the 1981-1985 5-year plan, some interesting potential elements for revival of the entire industrial system and consequently quite a few possibilities for substantial economic growth. All this, however, has not occurred, and in 1981 the national income increased, by comparison with 1980, only 0.2 percent (whereas a 2.8-percent increase had been anticipated). Overall industrial production grew by 2 percent; heavy agricultural production actually decreased by 3.4 percent vis-a-vis the expected increase of 2.6 percent; building activity decreased, and the sector's production dropped by 2 percent as against an expected increase of 2.8 percent; investments fell by 1.9 percent; and steel production grew by only 0.9 percent. Conversely, it should be mentioned that the mechanical industry's production went better, reaching a 3.9-percent rate of increase. On the other hand, lignite extraction dropped, production of electrical energy grew by only 1 percent, while chemical production increased by barely 0.1 percent, as against an expected 7-percent increase. The only data that stand out sharply as positive are, on the one hand, the production of light industry, which fulfilled the plan's expectations completely, with a 2.5-percent increase, and on the other hand, food production, which actually exceeded the target (though by just a little): up 1.5 as against 1.2 percent. On the whole, the situation is not among the best, especially because of the imbalance between the contents of the plan and the structure of the investments and the real production capacities. In particular, the schedules for building plants and placing them in service are constantly dishonored, with negative consequences, such as, for example, the considerable increase in projected costs. As regards world trade, it dropped in 1980 to 0.9 percent [as published], while Czechoslovak exports to the socialist countries rose by only 0.4 percent in 1981. To all of this must be added the hardly comforting datum for the first quarter of 1982--the 3.2-percent growth in the volume of exports and the 9.1-percent decrease in imports.

Prospects for 1983--The negative problems that emerge from the country's economic panorama are objectively not easy to solve, because they have to do with a concatenated series of phenomena that grew more acute between the end of the

1970's and the very first years of the 1980's. This makes one see other clouds on the horizon, hanging over economic development for 1983. Behind the surface phenomena that feed dissatisfaction among the population (growing scarcity of goods--basic products in particular)), one finds declines and bottlenecks in the productive apparatus as a whole, problems of efficiency and competitiveness arise, and in addition, one notes that the operational schedules are often not honored, with the emergence of negative reflexes, the most important of which lies in the considerable increase in the projected costs.

#### German Democratic Republic

Situation in 1982--With national-income growth of 5 percent, as against the 4.2 percent of the preceding year, the German Democratic Republic reached the objective set by the 1981 plan. There were increases over 1980 also in the productivity of labor (+5.2 percent) and industrial production (+5.1 percent). The latter, though still slightly less than the planned increase for 1981 (5.8 percent), nevertheless reached what was planned as an annual average for the 5-year period 1981-1985. The GDR's economic experts stressed, in commenting on the new 1981-1985 5-year plan, that the net national product should increase by 28 to 30 percent and should total, on the whole, more than 1 trillion marks. Industrial production should grow by 30 to 32 percent, while the construction industry, considered the spearhead of the GDR's economy, should grow by 20 to 23 percent. Simultaneously--again, according to the government sources--every effort will be made in order for specific consumption of important energy sources, raw materials and semifinished products to be reduced by an average of about 5 percent per year, and that objective was achieved already in 1981. This should be considered an important result especially because it was achieved in the face of a reduction of the supplies of coal and raw materials from Poland, as well as oil supplies from the Soviet Union. In addition, the use of lignite in chemical production increased; production of this energy resource--the only one that the country has--went from 257 million to 267 million tons. But the sector which, in the course of 1981, left something to be desired was agriculture, with the result that the country will once again be forced to have recourse to the international markets to meet domestic needs. The country's governing circles have been very sensitive to the agroalimentary problem, and indeed, the decision to abandon the large-scale integrated-production units and return to greater commitment to small agricultural cooperatives was made at the beginning of last year. Thus, an experiment that lasted 4 years can be considered ended.

Prospects for 1983--They are not of the best, but it is beyond doubt that the GDR is destined to remain the country with the highest standard of living of the entire CEMA area (including the USSR). It is difficult to say that 1982's positions will improve; it is known only that in 1982 the GDR's economic situation marked time more than once: in particular, in the first 9 months of the year, the rate of growth proved to be at levels lower than both the preceding year (3 percent instead of 5 percent) and the levels set by the planners (4.8 percent). In addition, debt to the West (especially to the FRG) grew further, exceeding the figure of \$10 billion already announced last year. Hence the decision on a policy of restrictions--common enough throughout the Soviet bloc, for that matter--so as to reduce the debt burden and provide for payment of the

very high interest owed to the Western banks (\$1 billion for this year). A reduction (around 6 to 7 percent) of imports of energy and raw materials is planned also, while it has been decided that production activity should be aimed mainly at exportation.

#### Yugoslavia

Situation in 1982--The objectives of the 1981-1985 economic plan are being rescaled, with the passage of the years, by the results effectively achieved, which are quite far out of line with the forecasts. For 1982, the Belgrade government had, for example, set the objective of a 15-17 percent increase in prices--a limit that was exceeded in the space of only 6 months, so that at the end of the year, 29 percent was reached, with a 32-percent peak in September. Nevertheless, this result was still below the 40 percent reached in 1980 and 1981, so that it can be said--as it was in fact said recently--that the economic system is still "holding," even if it is recognized that there are still some big and dangerous gaps. It should be said also, though, that Yugoslavia is suffering more than other countries from the world economic recession, the energy crisis and the slowdown in world trade. And not only these; it should be added that the sharp increase in importations, albeit with the adoption of austere restrictive measures and the decrease in exports, has resulted in a considerable deficit in the trade balance, which, according to the OECD [Organization for Economic Cooperation and Development] data, was \$11 to 12 billion. In addition, the external debt amounts to \$18 to 20 billion, about a third of which has to be repaid by the end of 1982 [as published], and this entails inevitable heavy consequences on the population's standard of living, on employment and production activities, and almost certainly makes for a commercial distancing of the Western area, with gradual integration of the CEMA area. And this would be something really new: indeed, according to what is reported by Yugoslav federal authorities, while it is true that in the last decade exchanges with the East were greater than those with the West, it is also true that 95 percent of the debts were contracted in the West: in 1982, for example, Yugoslavia met the USSR's food needs with one of its biggest meat-supply operations heretofore contracted with another country, while recently, among the Western countries, Italy opened a credit of more than Lit 56 billion to Yugoslavia. Unemployment is higher than 850,000, half of whom are persons with professional qualifications; and to that figure must be added 770,000 emigrants. All of this for a labor force of 6 million--i.e., more than 14 percent. Industry's production capacity remains largely underutilized too, with sharper drops occurring.

Prospects for 1983--The new austerity measures adopted by the Yugoslav government has substantially the following objectives: increasing exports, rationalising imports, reducing the balance-of-payments deficit. This means saving energy and keeping domestic demand, both public and private, within narrow limits. Another economic objective seems to be that of upgrading the private industrial sector, which currently contributes only 12.5 percent to formation of the Yugoslav GNP. Productivity is a fundamental concern too; an attempt is being made to strengthen it in order, among other things, to sustain economic growth, which will almost certainly reach 2.5 percent at the end of 1982 and 2.5 to 3 percent in the following 2 years. In summary, the complex measures

adopted for restoring the Yugoslav economy to health are destined to overturn a large part of the economic policy that the country pushed after the war: a policy that is to be "corrected entirely" today.

#### Poland

Situation in 1982--After the events of December 1981, the Polish question, with all its many problems, has not been limited to the CEMA countries only, but has extended to quite a few countries of the West, concerning them and involving them. The result of this has been that the entire course of 1982's economy, which was already in a sharp recession because of the crisis of the preceding years, is dependent on the balance of forces and relations on both the European scale and the world scale. We need only cite a few economic indicators to have an idea of the "degree of crisis." The cost of living rose by 25 percent in 1981, and in the last quarter the increase reached the rate of 39 percent. Conversely, in the first 3 months of the year the price of foodstuffs alone went up by an average of 122 percent over 1981. In particular, the prices of energy products--specifically, coal--went up 260 percent as from February; electrical energy, 100 percent; gas, 190 percent; and the bill for hot water for heating, 80 percent. Even agriculture, which had developed rapidly in the 1970's, showed results distinctly lower than the forecasts. According to the experts of the OECD, underutilization of the agricultural potential is explained mainly by measures to stimulate investment and by the uncertainty hanging over the future of private technical property. In Poland, indeed, 80 percent of the productive parcels are under private ownership, and the farmers get from the free market two or three times the price paid by the state organizations for marketing of agricultural products. Other data reveal that the real income of the population decreased by 25 percent in the first 7 months of the year, and that consumption of foodstuffs too decreased by 13 percent, aligning now with the 1973 levels. Even consumption of industrial products decreased by 30 percent. Even though Warsaw declares that the Polish economy is showing signs of revival, certain authoritative international sources are sceptical, and they are calculating that at the end of 1982, industrial production alone will have shown a drop of no less than 5.4 percent below 1981.

Prospects for 1983--Since the state of uncertainty about the international equilibrium continues to weigh heavily on Polish affairs, without the prospect of a short-term resolution, if there is going to be a revival of the country's economy--as everyone hopes--it will certainly be very laborious. Among other things, it should be kept in mind that at the beginning of 1982 the country's debt to the West totaled \$25 billion (including capital and interest), \$10 billion of which was supposed to have been paid in the course of the year. A worsening of these figures is expected during 1983: in particular, the Polish debt, influenced also by the strengthening of the dollar in the markets, should rise by another \$3 billion. And not only that: it should not be forgotten either that as a result of the sanctions applied at the time of the imposition of martial law, quite a few foreign governments are not disposed to negotiate new credits or to reformulate the distribution of the Polish debt until normalization is achieved. A lot will therefore depend on the "normalization" of the country. Let us say that it is indeed on that--and the way it is reached--that the future progress of the country's economy and productivity will depend.

Situation in 1982--As for the other countries of the East, for Romania too, the most valid data are those effectively arrived at at the closing of the 1981 economic year, even if the first real signals of 1982 indicate how the economic situation stands: its debt to the West totals \$11 billion, which is the highest of the entire CEMA after the Polish one. Nevertheless, 1981 closed with results which, while they cannot be described as exalting, still are not to be considered negative. The biggest gap between the plan's objectives and the results was in national income, which increased by 2.1 percent, whereas the plan had anticipated a growth rate of 8.6 percent, and agriculture, whose production dropped by 5 percent. Net industrial production in 1981 was 304.4 billion lei, with a rise of 4 percent over the preceding year. Industrial production in the principal sectors registered growths ranging from 0.2 to 5.8 percent, with the exception of the food industry, whose results were lower than those of 1980. Taking note of the current data, though, as worked out by the IMF, one notes that industrial production in the first quarter of 1982 rose by 1.7 percent, while it reached 4.2 percent in the second quarter of 1982. Again in 1981, the mining and energy industry achieved 37 million tons of coal and 70 billion kWh of electrical energy. The productivity of labor in industry increased by 2.4 percent over 1980, which is equivalent to 70 percent of the net increase in production. The population's housing conditions are improved, with construction of 164,000 housing units, 153,000 of which are apartments, at state expense, with 11,000 at private expense. Interest has been aroused by the 1981-1985 5-year plan, which provides for intensive development of agriculture and of the food industry, while observers have not failed to take note of the decision relative to rationing of foodstuffs (bread, wheat and corn)--a measure that has been reintroduced after 27 years and that naturally has an effect on the population's nutritional levels. Grain production in 1981 was 20 million tons; a part of it should be exported in order to keep the heavy trade-balance deficit within bounds--in the period 1976-1981, it showed a growing negative balance, going from \$2.7 billion in 1976 to about \$13 billion in 1981, while in the first and second quarters of 1982, exports decreased by 0.5 and 7.5 percent, respectively, by comparison with the same periods of 1981.

Prospects for 1983--After the Western banks granted a rescheduling of the debt contracted in 1982, the IMF indicated in Bucharest several "binding choices" in economic policy for 1983: concentrating the investments in the raw-materials extraction sectors and in the sectors with low energy consumption, as well as development of agriculture. Consequently, it does not seem just an incidental fact that Romania is committing itself--through new operational mechanisms, among other things--to the goal of achieving better agricultural production in order to meet the consumption needs of the population as well as of the national economy as a whole. Use of incentives is anticipated, and more particularly, a 25-percent increase in the wage mass of the agricultural workers, so as to make their earnings roughly equivalent to those of city workers.

#### Hungary

Situation in 1982--Despite the reform of the Hungarian economy, based on greater operational dynamism, the growth of the economy developed at a slow pace in 1981. The net material product increased by 1.8 percent instead of the 2 to 2.5 percent planned. Some notable signs of crisis in agriculture emerged (down

4 percent from 1980, which was itself depressed), and the external debt has risen, to the neighborhood of \$9 billion to the West alone. There are also other official data that reveal that the national income grew by 19 to 20 percent in the 5-year period 1976-1980; that industrial production increased by 21 to 22 percent; that agricultural production rose 13 to 14 percent; that real per-capita income grew by 8 to 9 percent; and that consumption dropped by 14 percent. As for real wages (up 14 to 16 percent in the last 5-year period), official sources do not rule out the possibility that there may not be any increases in the coming years. There is, however, a governmental commitment aimed at guaranteeing the current satisfactory standard of living by reducing, if possible, the rate of inflation, which for 1981 was around 5 percent and was largely "imported" from the West. As for the rest, production in some sectors (minerals, metallurgy, steel) dropped a bit both because of lower demand in the domestic market and the drop in exports, and on account of the desired contraction of production. The tasks of the new 5-year plan (1981-1985) are to ensure a slightly rising level of consumption and to reestablish the equilibrium of the balance of payments in a period of slow production growth. According to the plan's indications, the national income produced should increase by 14 to 17 percent in 5 years, while in 1985 the national income distributed should exceed that of 1980 by only 3 to 5 percent. In 1981, Hungarian foreign trade totaled Ft 613.7, exceeding 1980's volume by 5.6 percent. In terms of value, exports rose by 6.8 percent, and imports by 4.8 percent. Imports from the West in the first 9 months of 1982 dropped by 7.2 percent, and exports were reduced too, by only by 1.2 percent. This datum cannot be considered positive for maintenance of the economy's growth position (even if a modest growth), because Hungary needs raw materials such as oil, iron and coal.

Prospects for 1983--The economic growth foreseen for 1983 should be between 0.5 and 1.1 percent--i.e., a value considerably lower than the annual average of 3 percent programmed for the period 1981-1985. Despite the existence of a debtor position vis-a-vis the outside, totaling the equivalent of \$8 billion, Hungary should be able to have good possibilities of achieving a positive balance of the current transactions in the amount of around \$600 million. At the end of 1982, the premises for such a position seem good, since Budapest has managed to obtain credits of \$810 million from the Western central banks, \$260 million from commercial banks and, recently, \$600 million from the IMF, and all this without finding itself in the position of having to accept conditional restrictions. Everyone knows that sacrifices are necessary if it is effectively desired to retain the international credibility that the country has so far won by operating in the market with an open strategy.

#### The USSR

Situation in 1982--The Soviet economy went into full implementation of the 1981-1985 5-year economic program after the impact of the first year, which proved difficult and, from the results, not in line with those programmed and planned. According to studies by Western experts, the Soviet economy has grown in the last 3 years at a rate lower than indicated by the government statistics--i.e., with a GNP increase of 4.7 percent per year rather than the 7.4 percent declared; on the other hand, consumption of meat and vegetables tripled, while the situation as regards the housing needs improved slightly.

As regards the 1982 results in particular, Moscow's data too reveal, in fact, a lag in the development of the country's economy vis-a-vis the indications set out by the 5-year plan. Industrial production grew by only 2.8 percent during the year, as against a forecast 4.7 percent, and national income increased by 2.6 percent as against the 3 percent planned. It appears that the plan's objectives were reached and exceeded, though, as regards production of natural gas and coal, but not for oil. In the first 10 months of the year, 509 million tons of oil were produced, equivalent to 12.22 million barrels per day, as against 614 million planned for the year as a whole, equivalent to 12.28 million barrels per day. As for natural gas, 412 million  $\text{cm}^3$  was produced. Production of iron and steel, automotive vehicles, railroad engines and cars, tractors and other machinery has been considered to be below the 1981 levels, though. The quantities of the agricultural harvest have not been announced by Moscow, for the 2nd consecutive year, but according to informed Canadian sources, from whom the USSR purchases large quantities of grain, the farmers probably harvested about 176 million tons of grain--that is, 27 million tons more than in 1981, but still 60 million tons below the ambitious target set by the plan. According to Ecotass, considerable quantities of basic and widely consumed products, from knitted goods to paper products, from gardening tools to athletic clothing, flowed into the Soviet commercial network during 1982 also.

Prospects for 1983--According to the data published by NOVOSTI for 1983, a "strong growth of the production apparatus" is foreseen for the USSR, mainly on the basis of the fact that there will be a 4.4-percent increase in the investments programmed. According to the 1981-1985 5-year plan, the process of industrialization of Siberia and of the Soviet far east will continue. The annual increase in primary energy sources planned (41 million of conventional fuel [as published]) should enable the USSR to make all the energy systems function regularly and without interruptions. Meanwhile, work continues on the expansion of the gas-pipeline network, which will expand further through the laying of another 10,800 km of pipe. The Siberian gas pipeline for exportation will be completed in the last quarter of the year. The entry of 870 km of oil pipeline into service is planned also. As for the coal industry, it will receive a considerable stimulus, because at least 20 million tons of coal is expected to be extracted from the mines and the new deposits.

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CEMA PROSPECTS FOR HYDROELECTRIC ENERGY DEVELOPMENT VIEWED

East Berlin AW--DDR-AUSSENWIRTSCHAFT in German Vol 11 No 18, 27 Apr 83 p 14

["AW Market Information" report by Information and Public Relations Department, GDR Ministry for Foreign Trade: "Prospects for Hydroenergy Management of CEMA Countries"]

[Text] An efficient structure in energy management is of great importance for the continued dynamic economic development of the CEMA countries. On the basis of the comprehensive program and the long-term objective of cooperation in the area of energy, fuel and raw materials management, provision is made for comprehensive utilization of national energy resources, including water resources for the further development of energy management. Work is underway in refining the general design of the future development of the United Energy Systems [VES] of the CEMA countries up to 1990.

In the area of water power utilization the task was set of structuring the national energy systems in an optimal manner and of jointly building energy management units, also including pump-fed power stations. On the basis of the resolutions of the 35th CEMA Council Meeting, CEMA's standing commission for cooperation in the area of electrical energy formulated a design for the future development of the VES in the CEMA countries for the period up to 2000.

The design will contain a comprehensive program of measures, including possible cooperation with West European energy systems. At present, studies and measures are being prepared for more efficient utilization of water power resources in the context of the comprehensive water management systems in the CEMA countries and of water power potentials of the smallest magnitude through the construction of small hydroelectric power plants.

Share of Water Power in the Energy Balance Sheet

In 1981 the hydroelectric power plants in the CEMA countries produced about 210 billion kWh of electrical energy, which is roughly 12 percent of the total output of electrical energy. The output of these power plants comes to 66 million kWh or 18 percent of the generating capacity for electrical energy.

The CEMA countries have the following hydroenergy-producing potential: USSR 1,095.0 TWh [terawatt hours]; Romania 40.0 TWh; Bulgaria 12.1 TWh; Poland 12.1

TWh; CSSR 9.0 TWh; Hungary 5.2 TWh; GDR 0.7 TWh. The countries mentioned utilize water resources as follows: GDR 87.0 percent; CSSE 45.5 percent; Bulgaria 30.0 percent; Romania 30.0 percent; USSR 26.0 percent; Poland 24.0 percent; Hungary 3.0 percent. The CSSR, Poland and Romania are planning 60 to 95-percent development of existing resources by 1990. The share of water power in the total balance sheet of this sector is shown by the resource situation of the particular country. The following indicators make this clear: Romania 18.3 percent; USSR 14.1 percent; Bulgaria 9.8 percent; CSSR 5.6 percent; Poland 2.6 percent; Hungary 0.7 percent; GDR 0.2 percent.

#### New Projects in the USSR

Among other things the economic development plans of the USSR call for the construction of large hydroelectric power plants which will offer the possibility of a comprehensive solution to the tasks of producing electrical energy, irrigating cultivated agricultural areas, the water supply for cities and industrial enterprises, the development of shipping by inland waterways and fishing and flood protection. On a national scale, 70 percent of the increase in output of hydroelectric power plants is planned for areas in Siberia. The full rivers there guarantee additional annual production of electrical energy amounting to 422 TWh, that is 38.5 percent of the energy-producing potential of the USSR. The rivers in the Far East have a 27.4 percent share with 229 TWh, those in Central Asia and Kazakhstan 15.7 percent with 173 TWh. Giant projects are being built, such as the Zayano-Shushenskoye hydroelectric power plant on the Yenisei with an output of 6,400 MW and the Boguchany power plant on the Angara with 3,000 MW. In the European part of the USSR during the current five-year plan period construction of the Volga-Kama cascade will be completed since the Cheboksary and Nizhnekamsk power plants will reach their full capacity. The construction of the Dnestr hydroelectric power plant will be completed. Work on the hydroelectric power plants in the area of the northern Caucasus will be continued. By 1990 the hydroelectric power plants on the Irgina in the northern Caucasus region and Daugavpils in Latvia are supposed to start operation. Electrical energy requirements in the European part of the USSR are to be taken care of during peak load periods by pump-fed power stations which are yet to be built. The pump-fed power station near Kiev with a 66-m overflow level has an output of 225 MW. Six pump-fed power stations with a total output of about 12 GW [gigawatts] are in the design stage. Under construction at present is the Zagorsk pump-fed power station (100-m overflow level and output of 1,600 MW). According to the plan, the share of electrical energy production by hydroelectric power plants is to rise from 17.4 percent in 1982 to 21.2 percent in 1985 and 24 percent in 1990.

#### Utilization of Water Power in Other CEMA Countries

In Bulgaria the construction and design of hydroelectric power plants on big rivers are scheduled in the form of cascades, as for example the Nikopol-Turnu-Magurele hydroelectric power plant on the Danube, which is a joint venture with Romania, and the Mesta cascade. The greatest attention is being devoted to the utilization of small watercourses by means of the construction of collecting diversions lines. Thus, on the Struma cascade 450 water tapping points were built with a flow of only several liters per second. The water is then fed

into larger collecting lines. The trend toward building small hydroelectric power plants with an output of about 500 kW is evident in the program which calls for placing 30 such hydroelectric power plants into operation. By 1990 the share of hydroelectric power plants in the total output of the country's power plants is to be about 17 percent and about 8 percent of the country's electrical energy production.

In the CSSR intensified utilization of the water power potential, among other things, is guaranteed by the continued construction of pump-fed power stations. In addition to the Dalovice and Cerny/Vah pump-fed power stations, construction of an additional pump-fed power station near Dlouhy/Strane and a hydroelectric power plant on the Danube is in preparation.

The potential of smaller rivers is being developed as an important reserve. At the present time 230 small hydroelectric power plants with a total output of about 160 MW are being operated which deliver 530 GWh of electrical energy. Consideration is being given to putting back into operation or building new about 700 small hydroelectric power plants with a total output of about 215 MW which can produce about 850 GWh of electrical energy. By 1990 the share of water power in the production of electrical energy is to be increased to 56 percent.

In the GDR primarily the pump-fed power stations are being further expanded. Thus, it was recently possible to put the Markersbach pump-fed power station into operation and start the preliminary work for the Goldisthal pump-fed power station. Since the possibilities for building economically worthwhile hydroelectric power plants have been exploited to the greatest possible degree, a key task is the reconstruction of existing hydroelectric power plants. The conditions for building small hydroelectric power plants with an output of about 30 MW are being reviewed at present.

In Poland the river regions of the Wisla with 80 percent of the water power resources have the decisive share in the water power potential of the country. In addition, there are the resources of the Neman River. The comprehensive Wisla program was developed which includes all questions of water power utilization, of the water supply, of agriculture, of shipping and of waste water purification and other things. The work will be done on three segments of the Wisla. For the lower Wisla there is to be construction of a hydroelectric power plant cascade with a total output of about 1.4 million kW and electrical energy production of about 3 billion kWh.

In the middle course there will be cascades with an output of 500 to 600 MW and electrical energy production of about 1.7 billion kWh and in the upper course cascades with 200 MW or 0.5 billion kWh. The operation of the three cascades is to be automated in such a way that it can be controlled by the largest power plants of the particular cascade. The power plants in turn are to be linked with the central switching station of the entire energy system and with the dispatcher stations for shipping and the water supply. In addition, at present a pump-fed power station is being built in Zarnowiec on the Pilica with an output of 680 WM.

In Cuba the construction of pump-fed power stations with a total output of about 500 MW is planned for the future. By 2000 their output is to be increased to 1,500 MW. The water power potential is to be utilized by means of small hydroelectric power plants with outputs up to a total of 550 MW.

In Romania energy management is being developed on the basis of a program of directives for research and development work in this sector for the period 1981 to 1990 and of guidelines up to 2000. Accordingly, the level of utilization of water power resources is to be raised from 30 percent in 1980 to 45 percent in 1985 and 65 percent in 1990. By 1990, mainly in the border regions of the Danube, new hydroelectric power plants are to be built. The share of hydroelectric power plants in the production of the country's electrical energy is to rise, according to the plan, from 17.4 percent in 1982 to 21.2 percent in 1985 and 24 percent in 1990. More than 1,500 small hydroelectric power plants and pump-fed power stations are to be built. At present production of equipment for small hydroelectric power plants which are designed for mountain locations with difficult access has been started.

In Hungary 75 percent of the usable water power is concentrated on the Danube, 10.5 percent on the Drava and 8 percent on the Tisza. Completion by 1990 of the Gabcikovo-Nagymaros hydroelectric system is a key project which is being jointly done with the CSSR. In the future there are plans for the construction of additional hydroelectric power plants on the Danube and the Tisza. In addition, small hydroelectric power plants with outputs between 100 kW and 2 to 3 MW are important.

12124  
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INTERNATIONAL AFFAIRS

CEMA GOALS, ROLE OF POLAND WITHIN IT REVIEWED

Warsaw SZTANDAR MLODYCH in Polish 22-24 Apr 83 pp 1, 5

[Interview with the undersecretary of state, Ministry of Foreign Trade, Wladyslaw Gwiazda by Jacek Swidzimski: "CEMA; In Common Interest"]

[Question] Mr Secretary, I think it would be worthwhile to start our interview with a reminder of the circumstances under which CEMA was established, and what purposes it should serve.

[Answer] In 5-8 December 1948, during consultations in Moscow, representatives of Bulgaria, Czechoslovakia, Poland, Romania, Hungary and the Soviet Union decided to found CEMA (Council of Mutual Economic Assistance). In 1949 Albania joined CEMA but has not participated in its activity since 1961; in 1950 East Germany joined, in 1962, Mongolia, in 1972, Cuba, and in 1978, Vietnam.

The period when CEMA was founded, was a period on the one hand of intense effort of the USSR and the young people's democracies to join to rebuild their economic potential; on the other hand, it was a period of an increasing economic blockade of the socialist countries by our previous allies: the U.S., Great Britain and other Western nations. The Marshall Plan practically prohibited Western countries from carrying on trade with the East European countries, the Export Central Act, voted by the U.S. Congress in 1949, allowed the President of the U.S. to embargo export of any particular goods to any particular country. The embargo policy was rendered as a main instrument of economic warfare with the socialist countries.

In such a situation countries of the socialist camp could depend only upon mutual assistance, and above all on assistance of the Soviet Union.

But the mutual assistance was not the only premise for founding CEMA. The main objective was to set up an economic organization, which could assure appropriate forms of mutual cooperation making it possible to take maximum advantage of the merits of the socialist system to solve different economic problems. The main rules on which CEMA is based on are: total equality of all member countries, respect of sovereignty and national interests, common advantages and fraternal mutual assistance.

[Question] What is the organizational form of CEMA? What common bodies were established in the structure of the system?

[Answer] The supreme organ of CEMA is the session of the council, whose meetings are held, in substance, once a year alternately in the capitals of the member countries. The session of the council defines the main trends of the activities, and considers fundamental problems of economic, scientific and technical cooperation.

The basic executive body is the Executive Committee, which manages the complex issues of the council on the grounds of the resolutions of the sessions and their statute functions. The Executive Committee is constituted from permanent representatives of the member countries on the level of deputy chiefs of the governments, and the sessions are called at least once every 3 months.

The session of the Council calls into existence permanent commissions, whose tasks include coordinated action and realization of cooperation in certain fields of the national economy. At present there are operating 22 permanent commissions in CEMA, e.g.: Foreign Trade, Foreign-Exchange-Financial, Statistical, Agricultural, Energy, Coal Industry, Chemical, Machinery, Peaceful Use of Atomic Energy and others. Other permanent organs of the council are the conferences, which carry out analogous functions to the permanent commissions, but without the right to take up recommendations. At present there are operating seven conferences, e.g.: Conference of Ministers of Foreign Trade, Conference of Representatives of CEMA Countries for Legal Affairs, too.

In connection with the expansion of CEMA tasks, which is a result of the complex program of socialist economic integration, the Committee for Cooperation in the field of planning, and the Committee for Technical-Scientific Cooperation were called into existence in 1971. The function of the Committee for Cooperation is to make recommendations and accomplish in resolving the most important problems of cooperation in certain fields of production and coordination of planning. In 1974 the CEMA Committee for Cooperation in the field of material and technical supply was organized.

The administrative-executive organ of the council is the CEMA Secretariat. The CEMA Secretariat consists of the secretary of the council, deputy secretaries and experts grouped in sections performing the functions of secretariats of the individual permanent commissions or conferences.

One should also mention two institutions: the CEMA Standardization Institute and the International Institute of Economic Problems of the World Socialist System.

At present 38 international economic and administrative organizations operate in the CEMA countries. Poland participates in 32 of them, and 11 of the organizations' seats are located in Poland. The most important of these organizations are: international banks-the CEMA Bank of Economic Cooperation and Investment, furthermore the Central Dispatcher Agency for United Energy Systems, Cooperative Organization of the Bearing Industry, Intermetal

[International Metallurgy Organization], Interchim [International Chemical Organization], Joint Park of Railroad Cars, Intersputnik [International Sputnik Organization], Unified Institute of Nuclear Research, International Organization of Shipowners, Interatominstrument [International Agency of Atomic Instruments], Interatomenergo [International Agency of Atomic Energy], Intertekstilmasz [Textile Machinery International Organization], and others.

[Question] Economic integration is always associated with the problem of a common financial settlement. How does it look in CEMA?

[Answer] To improve financial settlement, and to strengthen the effect of the foreign (hard) currency to fulfill commitments, member countries concluded an agreement on multilateral settlement in transfer rubles and on organizing the International Bank of Economic Cooperation. The treaty went into effect on 1 January 1964. The bank operates the financial settlements resulting from the bilateral and multilateral treaties, and particular contracts on mutual goods supply, as well as from treaties about other payments between the agreeing parties expressed in transfer rubles.

Each member country of the bank when concluding trade agreements should assure balance payment within the calendar year, or within another period agreed upon between bank member countries, revenues and payments in transfer rubles with all other member countries as a whole. Consideration is given to formation or utilization of any reserves in transfer rubles, and also credit operations. The International Bank of Economic Cooperation grants two types of credit: current and term account.

[Question] The press frequently announces joint investments of the CEMA countries or other similar ventures. What kind of a role do these play in the Polish economy?

[Answer] One of the most important assumptions of the complex program of economical integration for the CEMA countries--adopted at the 25th session in Bucharest in 1971--was development of the base of raw materials and energy. Within the framework of the "Multiyear directional cooperation program in the field of fuel and energy" Poland participates in the realization of a number of mutual investments. From the right to participate in those investments Poland was guaranteed additional supply of raw materials, energy and other products for a period of a dozen or so years. Polish contribution in those investments is based on participation in building costs in the form of delivery of machines and equipment, materials and general goods, and also on building of previously planned, completely finished industrial complexes ("turn-key") with all necessary machines and equipment.

[Question] May I ask for concrete examples about more important ventures?

[Answer] Poland participated and participates in the following international agreements in the area of development of a base of raw materials: the construction of the Polotsk pipeline, cellulose-paper plant in Ust-Ilima, the Kiyembayevskiy asbestos mining enriching complex, the development of production of iron-ore raw materials, the development of production of various iron alloys

alloys, restart production of gas deposits and the construction of the Orenburg pipeline (Poland built a complete segment about 500 km long, four compressor stations and associated buildings), the construction of a high power electrical energy transmition line in Vinnitsa in the Ukraine and Albertirsa in Hungary, the construction of the Khmel'nitskiy atomic power plant in the Soviet Union and several others.

In Poland joint CEMA enterprises are operating, e.g.,: the "Haldex" Polish-Hungarian Corporation which processes coal residue products, the "Przyjazn" ("Friendship") Cotton Mill in Zawiercie built together with East Germany, and also "Petrobaltic" Joint Organization of Oil Exploration formed by Poland, Soviet Union and East Germany.

[Question] How significant is the problem of the specialization of the individual CEMA member countries?

[Answer] Specialization and cooperation in production is a basic form of international socialist division of labor. The participation in this form of cooperation brings Poland many advantages, for example: the gains from the extension of the production output, the assurance of continuous sales and purchasing markets for many years, the opportunity for development of the new industrial branches, e.g., ships, building machines, reactivation of foreign trade, and what is especially important at present, during the present crisis situation in Poland, the opportunity of using the spare capacity of productivity, and partnership of other CEMA countries in completing started investments.

In the 5-year plan in 1976-1980 Poland realized 220 bilateral and 100 multilateral agreements.

The more important goods which Poland exports within the framework of specialization include: sea and inland ships, ship equipment, building machines and road machines, mining machines and equipment, woodworking machines and equipment, complete technological lines to produce phosphoric, nitric and sulfuric acid, certain types of railroad freight cars, medical and laboratory equipment, roller bearings, electronic and radiotechnical goods, pesticides, and others.

In 1981 and 1982 difficulties appeared in development and expansion of specialization and cooperation in production between Poland and other CEMA countries. According to initial data Poland in 1982 participated in a realization of 60 multilateral and 70 bilateral contracts. The reduction was caused by cessation of contracts and agreements mainly in 1980, by difficulties in material supply, and financial difficulties (very limited amount of hard currency for import supply from II area--capitalists countries--not large any way), and also organizational difficulties (liquidation of the associations).

[Question] Mr Secretary, through all the time you have told about the importance of CEMA for member countries. Would you tell what is the significance of CEMA against the background of international division of labor?

[Answer] Together with the founding of the world socialist system, a new type of international division of labor started to develop, different in substance from the capitalist type--socialist in character.

The CEMA by-laws emphasized very explicitly and decidedly the readiness of the member countries to expand economic relations with all countries regardless of their social and governmental system, on the basis of equality, mutual advantage and noninterference in internal affairs.

For many years and in a very broad range the CEMA countries maintained cooperation with the developing countries, granting to those countries economic and technical assistance on the bases of international agreements in key sectors of state-owned industry. With the assistance of CEMA the developing countries have built over 3,000 industrial enterprises and other structures in different branches of the national economy.

Together with the developed capitalistic countries, the CEMA countries have developed cooperation quite broadly, mainly in the 1970's when dynamic economic development of the CEMA countries induced fast growth of demand for machines and equipment, licenses, raw materials, fuels and other materials. However, in recent years the trade relations with Western countries deteriorated because the U.S. and NATO countries aimed at replacement of the atmosphere of detente with confrontation, taking increasing advantage of trade-economic relations as an instrument of political pressure on CEMA countries. This is reflected in diminishing of overall trade of the CEMA countries with the developed capitalistic countries.

The geographical structure of trade activities of the CEMA countries is dissimilar to the structure of activities of the other world countries; in 1982 56.1 percent of the trade activities fell to the CEMA countries, 27.9 percent to the capitalist countries, and 11.9 percent to the developing countries.

At the present time the CEMA countries have stabilized their position in the world economic system through their considerable participation in world industrial productivity (over 30 percent) and in international trade exchange, in which the contribution of the CEMA members, although yet inadequate to their economic potential, constantly increases and will continue to increase.

[Question] What are the perspective trends of the development of CEMA?

[Answer] The trends were defined a long time ago in 1971 in the form of a complex program of continuing intensification and improvement of cooperation and development of socialist economical integration of the CEMA member countries. Those trends have not lost any of their validity. Very generally speaking those trends are: acceleration of scientific-technical progress, and intensification of social production.

It can be judged that the continuing talks about definition of the basic directions of cooperation for the next 5 year plan (1986-90) will lead to further substantial qualitative changes. This involves big investment ventures,

new areas of specialization, and considerable expansion of cooperation. All CEMA countries are interested in resolving such problems as: availability of food products, adequacy of supply of raw materials, fuel and energy, development of the industrial production of market goods, and others. However, this particularly involves our country (Poland), affected lately by a crisis.

If we are talking about the crisis of our economy one has to emphasize the role of the CEMA countries, particularly the USSR, and the help that we were granted in the last dozen or so months. As a matter of fact, supplies from the Soviets and other countries enabled Poland to surmount serious difficulties in many sectors of the national economy.

[Question] Sir, is it possible, even hypothetically to imagine the Polish economy without our being a member of CEMA?

[Answer] It is quite impossible to imagine something like that. Every country within an economic-political structure of the world has to be bound by certain ties with other countries. It is indisputable that our country has friendly socialist countries as neighbors, with whom we are connected by political, military and economic alliance. One of the forms of alliance is our partnership in CEMA. From this fact we should draw a main conclusion. Polish reasons of state indicate a special need to develop economic relations within the framework of CEMA.

Trade with CEMA countries performs a special role in our economy, because first of all in this way we can fulfill our needs for basic raw materials, fuels, other materials, machines and equipment. In Polish export to CEMA countries, delivery of machines and equipment continues to dominate. We also export fuels and raw materials. But in import our main items are: fuels, mineral, raw materials and metals, chemical goods, fertilizers and rubber, and articles of common consumption. Generally Poland's trade with CEMA countries constitutes about 55 percent of our total transactions with foreign countries. Our mutual trade exchange with the CEMA countries takes fourth place after the Soviet Union, East Germany and Czechoslovakia. I would like to emphasize here that the Soviet Union is the biggest and most important partner and will remains as such.

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CZECHOSLOVAKIA

MARCH ECONOMIC RESULTS SUMMARIZED

Prague HOSPODARSKE NOVINY in Czech 29 Apr 83 p 2

/Commentary by Dr Eng Vaclav Cap, CSc, Federal Office of Statistics:  
"March 1983"/

/Text/ The economy entered the third year of the Seventh 5-Year Plan in accordance with requirements set by the year's plan. In March and in the entire first quarter, planned volumes of industrial and construction production, procurement of animal products and transportation of goods were met or exceeded. The rate of development increased and the positive trends in the development of efficiency started in preceding years continued. At the same time, it must be seen that the problems and shortcomings which hamper and prevent more progressive developments in the economy persist and are only slowly being eliminated. For the most part, these problems cannot be resolved in a short time, but every dilatory measure and postponement intensifies them and brings about a more perceptive negative influence and more difficult resolution.

With the same number of working days in March, but with 1 more day in this year's first quarter, the volume of industrial production compared with the same period a year ago increased 2 percent in March and 4.1 percent in the first quarter. Average daily production was 2.8 percent higher in the first quarter. The annual state plan was fulfilled 25.1 percent. The detailed breakdown of the state plan for the first quarter was more moderate because industrial enterprises had fulfilled their economic plans 101.1 percent. The national economy, however, does not need the volume of production at any cost, but it requires highly efficient products for internal use and for international exchange. In this respect, we cannot be completely satisfied with the results of March and the first quarter.

A fifth of the industrial enterprises did not quite meet the planned volume of production in the first 3 months of this year and even more enterprises will have to make up their deficits in the coming months to meet planned sales of industrial production. With an increase of 4 percent in deliveries for the domestic market (in wholesale prices) for the 3 months, compared with the same period last year--the state plan calls for a 2.1 percent growth--16 percent of enterprises failed to meet their plans.

Deliveries for export to socialist countries increased 3.1 percent and only 6.2 percent of all enterprises did not meet the 3-month plan. The situation in meeting planned deliveries to nonsocialist countries is difficult and though the increase was 5.2 percent for the 3 months, the plan of exports to these countries is not being met and 17.5 percent of enterprises failed to meet their quota.

Planned deliveries of machinery and equipment for capital construction are proceeding favorably on the whole, but there are many shortcomings in their pattern. Slippages in supplies for certain construction projects threaten continuous production and often lead to postponement of completion dates. The worst problem is meeting deliveries for manufacturing consumption and operations where nonfulfillment of the plan by 37 percent of enterprises has affected the smooth flow of production. Comparison of completed deliveries with sales which the enterprises report according to invoices issued after shipment of goods from plants showed certain discrepancies, not only time delays. Therefore, it is being suggested that sales be counted only when deliveries are actually made.

Among the favorable results of this year's start is the continuous supplying of fuels and electricity to the national economy. With an 8.6 percent increase in brown coal and lignite extraction and almost the same volume of black coal as in last year's first quarter, altogether 33.2 million tons were mined. Supplies of coal on hand were higher at the end of the quarter than last year. Production of electricity increased 3 percent; 20.6 billion kWh of electricity was produced. An adequate production of fuels and energy and relatively mild weather led to less careful management of consumption. It is only with great efforts and rising costs that the energy situation here is under control and international comparisons show that there is still unused potential in our consumption.

Major structural changes in industry continued in accordance with the plan's direction. Engineering production was 2.9 percent higher in March and 4.6 percent higher in the first quarter than in the same period last year. At the same time, the electrotechnical industry developed dynamically (growth of 7.8 percent) and very successfully entered the year in plan fulfillment. Also meeting their goals in volume of production were enterprises of the wood-processing industry with a 5.5 percent increase in production and the food industry enterprises, which increased their production 7 percent. The state plan calls for reducing, or perhaps only slightly increasing, production in 1983 in those branches which are demanding of fuel, energy and imported raw materials, in view of the most pressing needs of the economy. However, the first quarter saw the plan exceeded in this area. In the metallurgical industry, production increased 3 percent in the first quarter (the state plan calls for a reduction of 0.9 percent in 1983), in the chemical industry it increased 4 percent (the state plan calls for a 0.3 percent increase) and in the building materials industry it rose 4.3 percent (the state plan calls for a 0.8 percent increase).

The plan for adjusted value added output of organizations in centrally administered industries was exceeded 2.8 percent according to preliminary data in the first quarter. This actually represents a growth of 6.3 percent compared with the same period last year. This demonstrates clearcut efforts toward attaining good results in material outlays. At the same time, the distinct increase calls for careful monitoring of the method of calculating this indicator compared with last year.

FOOTNOTES

1. Increases compares to expected 1982 results.
2. Increases compared to actual 1982 results.
3. All trade systems.
4. Data on actual results refer to actual transactions and the state plan (in contrast to overall actual results) does not include unplanned actions within the framework of cooperation, unplanned reexports trade, exchanges and conditional trade transactions, etc.

Basic Indicators of National Economy's Development in March 1983.  
Increases Over Comparable 1982 Period (in percent).

	March	Jan-Mar	State Plan <sup>1</sup>
Deliveries of the Centrally Administered Industries for:			
--investments at wholesale prices	-	-1.2	5.2
--domestic market			
at whole sale prices	-	4.0	2.1
at retail prices	-	2.5	3.5
--export to socialist countries			
at wholesale prices	-	3.1	4.8
at FOB prices	-	5.3	5.3
--export to nonsocialist countries			
at wholesale prices	-	5.2	2.5
at FOB prices	-	-1.1	3.4
--other sales for industrial production			
and other operations at wholesale prices	-	2.9	-
volume of industrial production	2.0	4.1	1.7 <sup>2</sup>
average number of employees	0.8	0.9	0.7
labor productivity based on industrial production	1.2	3.2	1.7
Construction			
construction work performed with internal labor resources	-3.0	6.4	-0.2 <sup>2</sup>
average number of employees	0.1	0.2	0.6 <sup>2</sup>
labor productivity based on construction work	-3.1	6.1	-0.7 <sup>2</sup>
housing units delivered by contracting enterprises	-32.0	-28.6	-5.4 <sup>2</sup>
Procurement			
Slaughter animals (including poultry)	-0.9	-0.4	-1.2 <sup>2</sup>
milk	11.6	12.9	1.1 <sup>2</sup>
eggs	4.3	5.3	2.2 <sup>2</sup>
Retail Turnover			
of the main trade systems	6.1	3.4	2.2 <sup>3</sup>
Foreign Trade <sup>4</sup>			
export to socialist countries	-2.9	7.8	6.0
export to nonsocialist countries	-14.4	-11.2	1.7
import from socialist countries	-2.3	11.9	11.0
imports from nonsocialist countries	-10.8	-13.1	7.5
Personal Earnings			
of which income from wages	5.0	5.1	1.6 <sup>2</sup>
Actual cash expenditures	4.7	4.4	1.2 <sup>2</sup>
	5.4	4.2	2.5

In construction, the volume of production in March fell 3 percent compared with last March, in view of the high volume of construction work achieved the year before. However, it was 6.4 percent higher than at the beginning of the year; the annual state plan calls for a moderate decline of 0.2 percent compared with the same period last year. The construction enterprises exceeded their plans by 2.5 percent in the first quarter. This lead and also the reduction of the seasonal fluctuation are welcome; on the other hand, however, much greater attention must be given to maintaining schedules of certain essential projects where there could be slippage in construction work.

In agriculture, winter crops and perennial fodder plants wintered successfully, giving good signs for their yields. However, spring work was delayed, compared with last year, because of rainy weather. In fulfilling the plan of animal-product procurement, in the first quarter 144 million more liters of milk were bought and 35.5 million more eggs, while procurement of slaughter animals and poultry was 1.5 million tons less compared with the same period last year.

In public transportation, 6.3 percent more goods were carried in the first quarter than last year, with a 6.2 percent increase by rail, also 6.2 percent more by CSAD /Czechoslovak Vehicular Transportation/. Transportation requirements were secured.

In foreign trade, cooperation with the socialist countries is developing successfully on the whole. Although in March exports were down 2.9 percent and imports 2.3 percent, the increase in exports during the first quarter of 7.8 percent and in imports of 11.9 percent indicates that even with increasing export and import prices there is continuing growth in the exchange of goods. In trade with nonsocialist states, meeting state export goals calls for increased efforts by production and foreign-trade enterprises. In the first quarter, exports fell 11.2 percent and because of the need to maintain the balance of trade, imports also fell, by 13.1 percent compared with the same period last year.

The first quarter saw continuation of a relatively rapid growth in national personal earnings, 5.1 percent. This was also reflected in a 3.4 percent rise in retail turnover of the main trade systems which attests to continuing improvement in supplying the domestic market. At the same time, personal deposits also increased and were Kcs 13.5 billion higher at the end of March than a year ago, reaching Kcs 183.8 billion. The money supply increased Kcs 3.9 billion over the end of last March and amounted to Kcs 48.6 billion.

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CZECHOSLOVAKIA

BRANDEJS ARGUES FOR FLEXIBLE CURRENCY EXCHANGE RATE

Prague FINANCE A UVER in Czech No 1, 1983 pp 7-11

[Article by Dr Jaroslav Brandejs: "Problems of Planned Transfer of International Price-Cost Relationships into the Czechoslovak Production Sphere"]

[Text] The intensification stage in the further growth of the Czechoslovak economy requires more consistent use of value factors, including their prerequisites and components, without which they might almost completely lose their nature and sometimes even be counterproductive. Whether it is a matter of external economic relationships related to exchange rates and their appropriateness and flexibility, or price and its prerequisites such as payment terms, interest and the like, it is only the entire complex which offers a real possibility for the use of the factor in question as an economic instrument to affect the economy.

During the changeover to the socialist mode of production, it was necessary to protect the young, rapidly developing socialist industry against powerful attempts by capitalist monopolists to destroy it. Accordingly, even in the relationships between producers and foreign-trade enterprises, we introduced a system of domestic wholesale prices which enabled production to grow uninterrupted and in planned fashion regardless of developments in world prices and the course of the world economy.

After the socialist character of Czechoslovak industry had been consolidated it became apparent that the system then in force, which gave priority to quantity over quality, would have made Czechoslovak production fall behind production abroad. Accordingly, it became necessary to place more emphasis on qualitative indicators and to plan for gradual, regulated introduction of international cost-price categories into the Czechoslovak production sphere.

The first step in this direction was the changeover to a system of procurement prices whose quality and yardstick function depended both on how realistically the transfer was made from foreign currency by means of exchange-rate instruments, and on the completeness of the transfer of all symbols associated with price, which are affected by the quality features of products offered or chosen in foreign dealings.

The appropriations of exchange-rate instruments stems from the basic fact that in a centrally managed economy the domestic price acts to create exchange rates practically without feedback; this is because hitherto the exchange rate has been designated only on the basis of the reproduction expenditures of the exporter, while the calculation of internal prices which form the basis for this calculation basically does not take account of foreign price relations or price levels at the material input level, so that the exchange rate has virtually no price-forming function. This fact is reflected in the calculations connected with exchange-rate instruments and the establishment of their levels, which are based on a comparison of current wholesale prices and the foreign prices that have been attained, and also in the reflection of foreign prices in the expenditures and earnings of enterprises, which is currently corrected in an approximate fashion by the associated financial and economic instruments at the level of independently calculated internal wholesale prices.

The current conception that the effects of external economic relations on a Khozraschet enterprise act directly through exchange-rate instruments does not support the production enterprises' attempts to increase the effectiveness of foreign trade and condemns the exchange rate to the role of a relatively precise criterion of trends in the effectiveness of the Czechoslovak economy's external relationships. In contrast, in spite of unfavorable experience with excessive protection, which for the most part makes producers more vulnerable and results in a decreased stake in qualitative growth, modernization and production innovation, protectionist tendencies with respect to the state budget still persists in the thinking of economists at the enterprise level and sometimes in the central government as well.

Introduction of external economic conditions into producer Khozraschet by means of foreign-exchange instruments cannot be achieved simultaneously and linearly throughout industry. But even during the current 5-year plan, we must begin gradually increasing the favorable and negative consequences which external economic relationships may produce in the economic results of the enterprise, while fully supporting all innovation and modernization projects which will be taken account of by foreign purchasers in price terms. There is no need to raise objections against independent formation of domestic wholesale prices, but we must bear in mind that in setting exchange rates, socially necessary expenditures on a worldwide scale are compared with national expenditures. From this comparison, we must derive conclusions leaving to a gradual change of the structure and the restructuring of industry, not to increased support for inefficient producers and more stringent deductions from the above-plan earnings of efficient producers. Outside the state budget, this decision would lead, quite counterproductively and illogically, to the use of that part of the national income which was created by efficient producers to meet the losses of inefficient producers. A restructuring conceived in this way naturally does not act to decrease the importance of the planned approach or to replace it by the allocation function of exchange rates, but rather should tend to make the plan more important for effective restructuring of Czechoslovak production.

If exchange-rate instruments do not express flexibly enough the real ratio between independent domestic production expenditures and socially necessary expenditures worldwide, either in foreign prices or in their conversion to korunas, it distorts or displaces the criterion for restructuring of Czechoslovak production, which might lead to incorrect decisions at the enterprise level or at the center. Similar consequences would result from automatic suppression of its consequences in external economic relations by some types of financial instruments, because this would weaken or eliminate the enterprises' need to increase production efficiency so as to achieve better results in terms of the affected enterprise funds and to decrease the risk of negative effects on these funds in case of inefficient production.

Conversion to korunas by means of a realistic, flexible exchange-rate instrument poses the first precondition for the standard-setting effect of foreign prices on Czechoslovak production. A second important precondition is that prices and their components be comprehensive, being based on the quality of production and services, timeliness of deliveries, time of payment and the like, and that their effects reach all the way to the producer.

The purchaser requires a modern product of high quality with good characteristics and accordingly he is often willing not only to pay on receipt but to assure delivery by payment in advance. In contrast, in the case of out-of-date, date, poor-quality products, inadequate service and the like, the producer or exporter must offer not only discounts, but deferred payment and the like.

While 9-10 percent interest is customary abroad when credit is offered by the supplier, the low domestic rate (6 percent until recently) on credit for the debts of foreign purchasers which is used under the current method of accounting for foreign prices gives the seller an incentive to offer the longest possible credit terms, while in the case of prompt payment at home it increases the absolute amount of the interest, thus "improving" the price from the producer's viewpoint and thus increasing the effectiveness which he gains from export, even though this is diametrically opposed to the interests of society. In contrast, the foreign-exchange economy prefers prompt payment for exports in order to have sufficient credits on hand to cover imports.

Payment and interest factors can distort price: but without them, price is an incomplete criterion which may lead to incorrect conclusions. About 10 years ago, therefore, Czechoslovakia carried out an experiment involving passing along the payment and credit conditions used abroad to the producer and importer. The shortcoming of that experiment was that it was limited to imports for which credit was given by the foreign supplier for a period longer than a year and did not apply to exports. Even though the payment conditions were successfully implemented in dozens of instances, the experiment was terminated because of a lasting fear that the OZO's [Foreign Trade Organizations] might forfeit their rights as regards the producer. Instances of imports which were included in the experiment were, however, kept in their initial form until the foreign obligations were fully paid.

During the experiment, the bank failed to identify any disruptions in payment relations between the producers and the OZO; in some cases the producers showed a greater activity and interest in foreign trade and its conditions. Certain enterprises (which obviously were not then using computers) strove to increase their bookkeeping efforts.

The relations between the foreign producer who offers supplier credit to the Czechoslovak buyer in order to allow him to purchase goods when he as yet has insufficient funds to pay for imports are distorted and complicated by the current method. The user of the foreign credit specified by the receiver of the goods is the OZO, which does not need this credit but which thus obtains financial resources, earmarked for later economic use, prematurely from the producer; it can use these, in conflict with the principles of financing of the Czechoslovak socialist economy, to meet its other needs, or can hold them as a deposit in its bank. Meanwhile the producer must borrow funds from the state bank to make his payments at a time which has no economic basis and stems only from the legal provisions regarding invoicing.

The previous simple, economically well-founded, comprehensible credit relationship between the foreign supplier and the domestic purchaser is thus complicated by:

- a credit relationship between the foreign supplier and the OZO;
- an economically ill-conceived relation between the domestic purchaser, who has already acquired the goods, and the OZO, which has obtained the money at incorrectly set interest terms, a situation which distorts currency circulation and the credit system;
- a credit relationship between the Czechoslovak State Bank and the domestic purchaser,
- a deposit relationship between the OZO and the Czechoslovak Commercial Bank or the redistribution of these monies by the OZO for early payment for exports.

This approach prevents the producers from using the possibilities offered by foreign commercial credit and from reckoning up their full debits, which decreases the incentive to put imported machinery and equipment into operation quickly, because the producer does not see the relationship and bears no exchange-rate risk.

The case is similar in exports, when the credit relationship between the producer and purchaser is similarly complicated and there is an interruption of the economic information which the credit offered represents. Under present conditions, it is more beneficial to the Czechoslovak producer to export products at the longest credit terms, and thus he is not compelled to innovate and modernize the products he exports, especially since the foreign interest rate augments the Czechoslovak domestic interest rate by the amount of the credit for debts of foreign purchasers, i.e., by 6 percent per annum in 1982 and 9 percent per annum now, with the possibility of further increases in the future resulting from large continuing variations in the interest rates obtained (which is by no means impossible with the current trends in interest rates).

According to the notice currently in force (No 154/1975 Code) regarding invoicing and payment for noninvestment deliveries, the purchaser must pay the invoice within 14 days of its sending or issuance if there is nothing to the contrary in the special regulations. By agreement between the supplier and purchaser the payment period may be shortened. The decree in effect thus presents extending the domestic invoice date to agree with the foreign invoice due date; conversely, it makes possible payments in advance, but only imports, i.e., by the OZO, and not in the case of exports. Thus, it clearly has an antiexport character and maintains an imbalance between the producer and foreign trade. In the interest export, and in order to increase the pressure for a more effective foreign trade, it might be advisable to consider amending provisions of the cited decree and consequently eliminate the fear of a possible forfeiture of the rights to compel domestic claims on the producer on the basis of the imported goods.

The existing regulations on invoices and payment would have to be changed in such a way as to allow a changeover to payment of domestic invoices at the same time as foreign invoices. With the new payment and credit conditions, the OZO would pay the producer for deliveries for export not within 14 days after issuance of the invoice, but in accordance with foreign payment conditions and payments received i.e., approx 15 percent in advance on conclusion of the foreign contract, 10 percent after dispatching of the goods, and the remainder in six half-yearly payments beginning in the first year after shipment of the goods abroad. The foreign purchaser's debt would thus be financed by the producer, who would have the monies in advance.

Credits for foreign purchasers' debts transferred to the producer would, if the payment conditions were passed along, be provided to the producer by the State Bank instead of the Czechoslovak Commercial Bank, which now provides these credits to the OZOs. The producer would pay for this credit with money forwarded to him by the OZOs when the credits were collected from abroad. If there were a delay in the collection from abroad, the State Bank would institute a revised credit procedure with respect to the enterprise which would be essentially the same as the current penalty levied on the OZO by the Czechoslovak Commercial Bank, when credit for foreign purchasers' debts was extended beyond the payment deadline.

We may assume that the bank's pressure for payment of the credit which the producer had drawn to finance the credited part of the shipment (after deduction of the advance payment) and a drop in the domestic interest rate (credit for long-term debts abroad was offered at 9 percent per annum in 1982) would lead the producer to the necessary analysis and ultimately to elimination of the production shortcomings which lead to unfavorable payment conditions in export. The producer would be impelled to try to speed up receipt of payment by the fact that throughout the existence of foreign purchasers' debts he himself would bear all exchange-rate risk, because the purchaser would be paying in foreign currency and the OZO would transfer the monies to the producer in foreign currency and currency converted into korunas according to the exchange rate at the time of collection. This should prompt the producer to export for the most solid currency and to offer supplier credit for the shortest period, which again involves quality, innovation, service and the like.

In import, according to this method the State Bank would provide investment credit to the extent of the individual payments at the time of their payment abroad after deduction of any allocations from the state budget and any money provided from the producer's own funds, provided that the producer needed this credit, i.e., was unable to meet the payments from financial resources created by the new imported investments.

Although this is an instrument which cannot itself reverse the unfavorable tendency regarding the effectiveness of Czechoslovak and foreign industry, in order to strengthen the current effort to increase the effectiveness of foreign exchange, it would be beneficial to turn to a tested and proven method of passing on foreign payment and credit conditions to the consumer. The way is prepared for a change in the approach to the problem of passing on payment conditions to the producer by an experiment now under preparation, which envisions the possibility of converting the relationship between the producer and the OZO to a broker relationship under some conditions and a combine relationship in others.

The transfer of foreign payment and credit conditions can of course be carried out in any type of organizational relationship between the producer and OZO. During the experiment carried out in the 1970's, the transfer of payment conditions represented a unique legal relationship which required no organizational alterations in the other legal relationships between the producer and OZO and was in essence completely provided for in the existing supplementary regulations regarding OZO invoices for imported products.

During the experiment it will become possible to test the functioning and effectiveness of payment conditions in the context of the currently existing organizational division between the producer and the OZO, in a broker relationship, and in case of the combination of the producer and OZO into a combine, because all three forms will exist side by side in the course of the experiment.

Any state budget allocations for import investments may be provided for by having them released from the state budget at the time of invoicing and frozen by the State Bank until the relevant invoice amounts were due to be paid.

The gradual, planned transfer of international price cost-price relationships and yardsticks into the operations of the Czechoslovak production sphere will achieve the intended goal only in the case of close coordination with the other economic instruments. Without a substantial improvement in khozraschet independence and especially in the enterprises' sense of responsibility, we cannot expect that such a subtle tool as exchange-rate flexibility or the transfer of foreign payment conditions would in itself give proper results. The value-related tools can be made to function effectively only by parallel orientation of the plan and all economic or value instruments toward the common goal, i.e., dynamic improvement of the efficiency of Czechoslovak industry and in particular of production intended for export.

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INTENSIFICATION TRANSITION OF MANAGEMENT, PRICING, PROFITS VIEWED

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/Article by Prof Eng Zdenek Haba, candidate of sciences, Economics Institute of the Czechoslovak Academy of Sciences: "A Contribution to the Controversies Over the Nature of the Tools of Planned Management"/

/Text/ The complexity of the tasks confronting the economists concerned with the questions of perfecting planned management in Czechoslovakia is multiplied by the accumulation of short-term problems of restoring economic equilibrium, and of the long-term task of changing over to a new trajectory of economic growth predominantly of the intensive type that is based on fully utilizing the contributions of scientific-technical development. It is a known fact that successful short-term solutions do not necessarily coincide in every case with the path of desirable long-term development. When there is no such coincidence, the otherwise desirable success of a short-term measure poses the danger that its significance might be overestimated, the activation of quickly mobilizable reserves might replace a basic change, and there might be only a brief detour instead of a historically new direction. This danger is the greater because even the brief detours that, for various reasons, are necessary must be pushed through, theoretically defended and practically implemented, which is not always conducive to their careful and critical evaluation. The numerous debates on the unutilized possibilities of the law of value and of commodity-money categories, and on the limits within which they apply to the socialist economy, confirm the existence of this problem.

Changes in planned management cannot be discontinuous, just as the process of social production itself, which management serves, cannot be discontinuous. The changes tie in with the development to date and utilize all the forms that have proven themselves in practice. But there is also the other side of the coin. Every planned management system is internally interconnected by a block of components, each of which has a certain function in the management system and is interrelated with the other components. Therefore they cannot be replaced randomly with other components that, considered individually, might be more

perfect but are not compatible with the functioning of the entire system. The more important the proposed changes in management, the greater the need to introduce them as a certain set so that the changes may be logically interconnected and may supplement and support one another; in other words, the more simultaneous must be the shift in the planned management system.

At the same time we know that the "rules of the game" concept in conjunction with forming the planned management system is only a metaphor. The real economy is not a game whose rules can be set as we wish. Material economic processes are involved that must be managed in accordance with their intrinsic economic nature. For the managing subject, these economic processes are objectively given at every stage of development (and his own activities can be changed only within certain limits). The urgency of changes in the planned management system in our country is associated with the need to change from a predominantly extensive type of economic development to a type that is predominantly intensive. It is indisputable that such a change is of cardinal importance; at the 26th CPSU Congress it was compared with the importance of socialist industrialization for building socialism in the Soviet Union. Thus we are left in no doubt that also the changes in the planned management system will not be able to remain superficial ones.

#### Direct or Indirect Management?

There are views to the effect that the required shift in the planned management system consists of a changeover from the methods of predominantly direct management (supplemented by elements of indirect management) to the methods of predominantly indirect management (supplemented by elements of direct management). According to these views, direct management is a form that historically corresponds to the extensive type of national economic development; it was able to mobilize the available resources, to create an extensive capital--assets base for socialism, and to raise significantly the social productivity of labor, under the complex conditions of building the foundations of socialism. This form, according to the mentioned views, is now outdated; we have a highly developed economy, in which the economic laws of socialism are fully asserting themselves; and we have mature worker and managing cadres who are linked together by their profound unity of interests and by modern theory. All this provides a springboard for a changeover to the new type of management that is based on commodity-money relations, on more effective economic incentives and the working collectives' own initiative, which society as a whole controls by indirect instruments of management.

Others, however, are of the opinion that the growing concentration of production, the new tasks of the scientific-technical revolution that extends to all spheres of society's life and requires decisions by the entire society more than ever before, and in the final outcome also the new technical means of management, make it possible to strengthen the direct forms of management, which are faster, more effective and more reliable. We must look ahead, and not back. There may have been mistakes in the past in using the direct forms of management, but this is unquestionably true of the indirect forms of management as well.

It is, of course, indisputable that exclusively direct management would be just as unimaginable for the real socialist economy as exclusively indirect management. The different nature of the production tasks, their different scope and capital-intensivity, their different international interrelations and other circumstances result in the fact that different forms of management must be selected to master these tasks. The aforementioned controversy does not apply to this matter. It concerns the principal direction in which the long-term development of the planned management system should proceed, and how to define the basic field in which the long-term instruments of planned management are to be sought and developed. In other words, the controversy concerns the initial program of management.

Direct management--i.e., the process under which the superior managing organ assigns binding and specifically targeted tasks to a subordinate organ, regardless of whether the tasks are expressed in physical units or value terms, and with what degree of detail--is by no means a simple form of management. An entire series of essential conditions must be met if direct management is to function well. It is no secret that certain ways of employing the methods of direct management, based on simplified notions regarding these methods, led to manifestations of bureaucratism, of central management for its own sake, to evasion of responsibility and to passivity, to subjectivism in decisionmaking, and to other shortcomings in managing activity. These harmful phenomena definitely have been and are being criticized in party and state documents, various measures are also being adopted to eliminate them, but so far we have not succeeded in ridding ourselves of them. This is the main reason why proposals to activate the forms of indirect management are gaining willing acceptance.

Indirect management--i.e., the creation of generally applicable economic conditions for the operation of enterprises, under which the enterprises (as economic subjects) act, independently and in their own interest, in a way that is desirable from the viewpoint of society, without receiving individual commands to act in this manner--promises to simplify considerably the administration of planning. Vertical management relations--which are fertile soil for distorting the flow of information, for negotiations on the amount of the plan and its fulfillment, on the allocation of investment and other resources, for concealing reserves, etc.--would be replaced by horizontal relations whose commodity-money form would guarantee objectivity and efforts to achieve economic efficiency and to implement the principle of actual merit, in the form of final national economic results as the criterion for evaluating the activity of enterprises.

Understandably, indirect management relations are not identical with market relations, even though the two often overlap. It is possible to imagine direct management using value forms (for example, a fine levied on an enterprise for polluting a stream), and also indirect management with the help of indicators in physical units (for example, an across-the-board reduction of petroleum allocations for all users). In the debates, however, the two types of relations often are confused and equated. Therefore, let us examine the possibilities and limits of indirect management, at first separately.

## Billiard Cushions of Indicative Management

Effectiveness of the instruments of indirect management depends first of all on whether they successfully combine the interest of society with the interest of the enterprise. This problem, of course, is a problem of direct management as well, except that there the enterprise is administratively compelled to act in the interest of society (to fulfill the plan), even it is not to the enterprise's advantage to do so. Under indirect management, the enterprise acts according to its own interest--or what it believes to be its own interest--even when this is not advantageous for society, and the enterprise cannot be penalized, let alone punished, for acting in this manner. The principle of indirect management is specifically the enterprise's reaction to the economic environment that the center prepares for the enterprise through the indirect instruments of management.

The difficulty lies in that the various enterprises, in accordance with their specific conditions, respond differently to the same overall incentive. Reduction of the energy allocation might lead to the expected or desired reduction of specific energy consumption, but also to a more simple but undesirable curtailment of output; or to a curtailment of energy-intensive output and to a change of the assortment (which might be desirable in some instances, but not in others); or to exceeding the prescribed consumption, with appropriate explanations, justifications, interventions, etc.; or to some other response. None of these responses can be condemned under indirect management, because one of its principles is that the enterprise should operate under the new conditions the best it can; if it finds unique ways that are advantageous from its own point of view, the enterprise is acting entirely in the spirit of this system of management. It is difficult to imagine such a carefully elaborated and perfect set of instruments for indirect management that could prevent the enterprises, under the mentioned specificity of their production conditions, from acting not in accord with, or directly against, the interests of society.

For the mentioned reason, it is also very difficult under indirect management to pursue great national economic concepts, i.e., schemes of the center that exceed the economic horizon of the enterprise: investments through which innovation of a higher order is realized, structural changes of an interbranch or inter-sectorial nature, external economic obligations that are in the interest of the state, etc. The enterprise itself lacks resources for such schemes; and if the state gives the enterprise resources for this purpose, the state must retain control over how these resources are used. In general, it can be said that the interest of the entire society is asserted less well under the more complicated mechanism of indirect management. The center recognizes the necessity of satisfying a certain need of society; it sets indirect economic instruments (e.g., a price change) that could lead to satisfying this need; the enterprise sphere acquaints itself with the new economic conditions; it investigates and weighs what would be the most advantageous response to them; then it makes its decision and implements the chosen measure. Even if we disregard the greater possibilities of error, inadequate response and inadequate measures along this complicated path, it is obvious that this path is a longer one, and that carrying out the center's intentions requires more time and is less certain than under directive management.

The notions regarding the feasibility of reconciling globally and automatically, with the help of indirect instruments of management, the interests of every component within the management pyramid evidently stem from the assumption that all economic laws function uniformly under socialism and the interests of all members of society are identical. This assumption, of course, is oversimplified. The unity of interests is not an automatic one, nor is it given once and for all. It is a unity of contradictions that must be overcome as soon as they are ripe for solution, a unity that is constantly disrupted and restored. But the planned management system is a specific system that must anticipate interest-conditioned contradictions among enterprises even under developed socialism. (There will be disputes over allocations of resources, the conditions of supplier-user relations, etc. so long as there is an economic incentive based on profit.) Contradictions between the center and the enterprises likewise will not cease. (The center pursues its economic policy with due consideration for the macroeconomic interrelations and data that are neither available nor of interest to the enterprises when making their decisions. The center also takes into account conditions outside the realm of economy and reaching beyond the sphere of interests of enterprises, etc.) Such contradictions will continue until the enterprise gains a certain degree of economic independence.

In view of these objectively existing contradictions of socialist economy, indirect management cannot guarantee any reliable or even automatic fulfillment of societywide objectives, so much less so in our country, if we bear in mind that we have not yet reached developed socialism as a higher stage of socialist development but that we are only building it. Not all individuals or collectives are acting in agreement with the principles of socialist collectivism. We still have not been able even to eradicate the influence of the capitalist world.

We must, therefore, eschew any idealization of the potential of indirect management. Its instruments are indispensable for rational management of socialist economy, however, they are no panacea that could in a single stroke remove all the shortcomings in management.

The effort to enforce the links of indirect management may be useful and necessary wherever such links have been neglected, but it often leads to a search for an ally in commodity-money relations. A short circuit of indirect management with commodity-money relations sets up the pons asini /the ass's bridge/ over which the discussion shifts to other problems overlapping the problem of direct and indirect management only in part; as a matter of fact, it leads to the problem of exploitation and historical perspective of commodity-money relations. There is no question--at least for the overwhelming majority of economists--that commodity-money relations exist in our economy; that they have been applied in management with no more than average success; and that it is impossible to upgrade the standards of management without improving commodity-money relations. This seems a satisfactory springboard for the allegation that commodity-money relations should be comprehensively supported and developed under socialism and that they represent the historical perspective of economic relations in the socialist economic system.

I do not intend to launch here an abstract theoretical debate about the commodity or noncommodity character of socialist economic solutions. As stated above, in

its current form this economy contains commodity-money relations; the only question is whether we should focus on them as a factor of development and expand and intensify their effect, or whether we should regard them as a factor that has outlived its time and is incompatible with socialism and hostile to it and, therefore, whether to oust it from economy as fast as possible, or finally, whether it represents a more or less neutral social phenomenon.

#### The Character of Commodity-Money Relations

It is a known fact that never in history have commodity-money relations represented an independent economic base of production; they had always been subordinated to the existing proprietary relations, whether it was slavery, feudalism or capitalism. There is no reason to assume that they could not become subordinated to the dominant relations of ownership under socialism. Of course, that is possible only if the enterprises' relative economic independence, from which they directly evolve, is itself subordinated to those relations. The problem of "commodities" is in fact a problem of the extent to which economic subjects are economically independent.

If one would try to resolve problems of planned management in an ideal form of market with perfect competition--in commodity-money relations as such--one must willy-nilly accept also their necessary premise: complete separation of the ownership of the manufacturers of commodities, in other words, private property, be it in individual or collective forms (enterprise cooperative, shareholders, etc.). If one rejects this premise, comprehensive exploitation of commodity-money relations, free-market mechanisms, etc., are out of the question precisely because commodity-money relations as such--independent from proprietary relations--cannot exist.

Precisely this circumstance frequently causes the emotional coloration of discussions about commodity-money relations and automatic linkage of any commodity-money relations with their capitalist historical form, and thus, leads to their a priori condemnation, on the one hand, and, on the other, to a tendency to regard them as an entirely independently functioning mechanism applicable at any time. Evidently these discussions still reflect the not-yet-overcome fetishism in the concept of commodity-money relations and value, where qualities which merely reflect other fundamental economic relations are being attributed to emancipated form.

It is, however, extremely important for planned management of the national economy whether it is focused on the contents or on the form, on the causes or on the consequences of economic processes, on the intrinsic or superficial aspects of production. The indicator applied as the decisive criterion for the fulfillment of the plan is not only an administrative proposition of planning strategy; it gives the development of production a very specific orientation with extremely serious and far-reaching consequences. For that reason, there can be neither blanket condemnation nor blanket glorification of commodity-money forms and of the instruments of management; they should be assessed above all objectively from the viewpoint of the functions which value, price, profits, etc., may practically fulfill in the management of production.

## The Plan and Value Indicators

Only with a uniform social criterion of work which applies to all different types of specific jobs may it be possible to divide work systematically into various branches of production in order to proportionally meet social needs and to assess the merits of achievements for the purpose of distribution and material incentives. We have not yet developed methods applicable for immediate assessment of energy expended by labor, regardless of the fact that it is not individual, but socially necessary, output of work which contains in itself a moment of proportional distribution of the total disposable amount of work according to the needs of society. We have not been able to replace value in the function of the measure of work; its quantitative expression is the exchange value and consequently, the price. It is impossible to plan without value indicators and without price because without them we would not know the socially necessary amount of work for the satisfaction of specific individual needs.

By the same token, it is obvious that individual indicators do not provide planners with adequate, all-encompassing information. They are based on work whose purpose is not differentiated and which has only one dimension--the quantity measured by its socially necessary duration. However, social needs are specific and their quality is differentiated; for instance, we do not need to spend Kcs 100 million for construction, but we need to build a certain number of housing units furnished in a particular fashion. Obviously, it would be peculiar to appoint a purchasing agent to buy spare parts with a single instruction--they must cost Kcs 800,000. Naturally, it would not be any better to assess his performance according to his expenditure of said Kcs 800,000.

Nevertheless, the planner finds himself in the same situation if he assigns to subordinated units tasks expressed in value indicators alone--which due to peculiar misunderstanding are regarded as qualitative although they are quantitative indicators par excellence--or if he is interested merely in the value expression of the result of production. From that perspective, it does not matter whether this is a proscribed indicator of the type of gross value of production, the indicator of value added or profits. It is axiomatic that the overall orientation of the production in every enterprise is given by its production programs and determined by the structure of its production assets; nevertheless, an enterprise interested solely in the value aspect of the fulfillment of the plan follows a natural tendency to plan and manufacture products whose prices are the most advantageous for the enterprise and enable it to meet the planned stipulations of value. This becomes so much more dangerous the greater the latitude of the enterprise in selecting its own line of production and the stronger its position as supplier in an unbalanced market.

Should then planning be natural? Indeed, the needs are specific; even if they are not all of a material nature, in their overwhelming majority they are met through material media, products of material manufacture as objects of useful value. Natural planning cannot be avoided because the process of production is above all a material process, an exchange of materials between man and nature; only secondly is it a value-creating process. However, it is not possible to plan only the material aspect of a product regardless of the costs of labor expressed in our days in the value form and regardless of the price of this or

that material product. The useful effect of the production and the costs invested in its achievement must be considered jointly.

For that reason, current discussions of planned management put such a stress on the concept of material value planning, i.e., planning which on every level of planned management reflects the desired useful value structure of the product as well as its cost intensiveness.

### The Cost, But What Will It Be?

There are some misconceptions that it is best to plan the material value so that the parameters of useful value be observed according to cost parameters, in the given case according to price parameters. Price is supposed to serve primarily as a measure of the amount of socially necessary labor costs.

Another misconception is that every price which is really a price and not a gauge of actual cost-intensiveness already includes in itself a priori social evaluation of the useful effect of the product in question and that it encompasses the criterion of value as well as of useful value in a single variable. This price could then become a unified and practical mechanism in the planning process, but above all, a mechanism of indirect management because it includes in itself the aspect of complexity and efficiency as well as the economic equilibrium. What in fact do we demand from price?

First of all, that it measure the necessary labor costs. If the planner does not know how much socially disposable labor is absorbed in a specific product, he cannot make a rational decision whether that particular product should be manufactured in our country or imported, or choose alternative satisfaction of a specific need, etc., no matter whether this is a planner of an enterprise or of society in general.

Secondly, that it measure the socially necessary labor costs. If the price merely registers the actually spent labor costs, i.e., in our country mostly individual value added with a certain profit surcharge, then every manufacturer is guaranteed profits in advance; the customer pays for the shortcomings in the organization of labor, for the waste of materials and so on. If the enterprise sets the price in the same way, it does not care because such excessive costs are automatically included in the price of the product. However, if the socially necessary costs are determined as real social necessity, i.e., as social norms, then of course the price cannot represent a simple sum total of items in the calculation. It must appear as a parameter independent of the enterprise, as an external limit which the enterprise must respect if it wants to recover its cost and earn adequate profits on top of them. Such a price differs quantitatively from the former, however, there can be no doubt that it is just as necessary.

Thirdly, the price should express the social usefulness of the product. It is a known fact that useful value is not the creator but the bearer of value, and therefore, no direct causal link exists between the value and the useful value. Value may increase even if useful value declines, and vice versa; this is related, on the one hand, to the development of labor productivity and, on the other, to the amount of useful values and to the extent of social needs which

they must satisfy. However, in conjunction with the price and the ratio of supply and demand it seems expedient to enter them directly in the price. If supply exceeds demand in the market, products of superior quality stand a better chance of being sold than goods of average quality; if a new kind of a product is introduced, at first it will be available in a limited quantity, the demand will exceed the supply and the price will deviate upward from the value. The social character of the useful effect exchanged for technical-economic parameters of individual products (for quality in terms of merchandise technology) then promotes the idea that these parameters as such should share in the price of the goods.

This notion stems from an intuitive need to set a higher price for a more useful effect based on the comparison of labor costs which must be spent thus far in order to achieve a corresponding useful effect. It is further supported by the fact that a higher useful value (product of better quality) is in reality mostly a result of more work and therefore, the movement of value and useful value follows the same direction (naturally, this does not mean at the same speed; as a rule, the growth of labor productivity slows down the growth of value), although this is not always the case: compare, for example, the development of the prices of microelectronic components. The same trend is followed by the above-mentioned circumstance that as a rule, products of better quality are not available in the market in adequate supply and their price deviates upward from their value because their demand is not met, and furthermore, because of the surcharges on the prices of technically advanced, novel and top-quality products, a similar effect is generated by parametric price-setting methods which, of course, have the same purpose only as regards products commensurable in terms of their useful qualities and possibly some other factors. However, if we mechanically accept the superficial notion that every product of greater useful value should be more expensive, we would choose a continuous and irreversible path of inflationary development, which is in fundamental contradiction with the general economic law of labor saving.

Insofar as it is advantageous from the viewpoint of economic policies, the reflection of useful qualities of a product in its price imposes, therefore, special demands on the price.

Finally, we also expect that the price fulfill its incentive function, that it induce enterprises to conserve raw materials and materials in short supply, that it motivate them to produce goods in demand and enforce in enterprises efficiency perceived in societywide terms.

It seems that we expect too much from the price which meets the demands of a single channel of information; we impose on it demands that are neither logically nor practically attainable. I cannot indulge here in an extensive debate about the issues of price-setting and its principles. Nevertheless, it seems that we cannot expect much progress so long as price-setting does not differentiate precisely the functions which the price is supposed to fulfill in the planned economy. The notion that price is the one and only satisfactory information for the enterprise sphere is unrealistic.

Occasionally it has been mentioned that in the capitalist market economy, price fulfills all the above-mentioned tasks. To that it may be added that it fulfills them ex post while we are planning for the future. Secondly, it fulfills them not only belatedly but also in a very imperfect manner, which is convincingly proven by the development of capitalist economies in the past and at present. Thirdly, even if the function of the production regulators are not adequately fulfilled, it still presupposes institutional conditions that the socialist economy does not meet.

Let us take, for instance, the justified demand of balanced prices which guarantee an equilibrium of supply and demand. May we regard the concept of economic equilibrium as a subtotal of the concept of market equilibrium? Obviously not, because a market equilibrium is established on certain price and income levels, not on the relation of proportionality of production and consumption. Balanced supplies and demands may conceal profound disproportions in the structure of personal and social needs, disharmony of individual parts of the social lifestyle and increasing social differentiation of society. It is clear that the value information is again one-sided and inadequate for the assessment of the overall economic situation.

Let us say that the market equilibrium in a certain area has been impaired, and assume that the central price agency reacted flexibly and raised the price of the product in short supply in order to stimulate the manufacturing enterprise to expand the production of that particular item. However, in order to expand its production the enterprise needs more raw materials and more materials from its subsuppliers, i.e., a change of the physical resources for the production. Furthermore, it must have the right to adjust the line of production independently in accordance with the changed needs; it must be able to expand its production capacity (so as to prevent a shortage of other products whose production will be cut back). The enterprise must have not only the opportunity but also the incentive to increase production: however, if it has no opportunity to earn more for the same product after its price has been raised, why should it try to change a situation which is to its advantage? The rationale of an enterprise differs from the societywide rationale.

All this should not imply in the least that the reciprocal regulatory function of prices should not be applied more extensively to adjust the production microline or to modify the demand, and that the market situation should not seek equilibrium. This must be the objective of well-planned efforts. Nevertheless, the gravity of such an effort cannot depend on reliance on automatic price mechanisms but on better planning.

#### Profit Through Incentives?

An important task of the planned management system concerns the fulfillment of planned tasks not only in administrative terms but also those of economy and the creation of preconditions in which the fulfillment of the plan is in agreement with economic incentives of the production units. Success depends here, on the one hand, on the character of the tasks assigned in the plan and, on the other, on the method for the evaluation of the fulfillment of those tasks. I attempted to point out that the tasks of the plan cannot be assigned according to the value

form alone, because then the material-value approach to planning would also logically lead to the material-value criteria of its fulfillment.

In reality, however, most of the proposals for the evaluation of success achieved by enterprises opt for profits as the decisive indicator (with certain modifications), i.e., the value indicator whose quantity is determined in a very complex fashion but whose quality represents without any doubt the social contribution of the work performed by the assessed collective.

If we assess the contribution made by the enterprise (on the premise that the extent of the useful effect is determined by the plan which objectivates social needs), the value manufacturer does not deserve credit for the overall amount of value of the product (gross value of the production, production of goods, etc.) because he has not created but only transferred a part of the value and, therefore, according to the principle of merit, he should not have a material stake in it.

It may be a topic for discussion whether economic incentives should be based on gross income or on profits. The most appropriate and sensitive indicator is profit, since the costs of labor value added--wages--paid by the enterprise are created according to /extra-value/ principles and represent an exogenous variable for the enterprise, determined by generally applicable norms of labor consumption and by wage regulations. Of course, profit is understood not as an automatically created derivative of costs but as an economic result--the difference between the price earned by the enterprise and the costs. With a given price, higher profits may be obtained only if production costs are reduced below the social norm--therefore, interest in profit acts in support of scientific-technological progress, better organization of labor and, in general, higher labor productivity.

This is the case if profitability in all parts of the outputs in the line of the enterprise production is approximately the same, if the enterprise cannot independently manipulate price, if the possibility of downgrading the quality of the product has been eliminated, and so on, in other words, if profit is earned in socially desirable ways. Otherwise profit motivation may be downright harmful. However, the condition of socially acceptable methods of maximizing profits is a very harsh condition that is difficult to fulfill and even more difficult to control. It certainly cannot be dismissed as self-evident in practical proposals concerning the profit indicator.

Nevertheless, let us say that it has been fulfilled; profit is the criterion of the efficiency of the enterprise and in a modified form of extraordinary profit it exerts pressure on acceleration of scientific-technological progress. Thus far, however, there is no guarantee that the line of production will be fulfilled; moreover, even if we assume the same theoretical profitability of products, the profit indicator will entice the enterprise not to fulfill the line of production because a more limited line of products would facilitate mass production and, thus, save costs. At any rate, next to profit, there must be another qualifying or determining indicator for the fulfillment of the line of production, which may be based on a fanlike form of the line of products opening more widely on every lower planning level, or based on the fulfillment of the plan, including only deliveries for which economic contracts have been signed, or on some other

principles. However, an indicator must be present if the profit criterion should apply in the assessment of the output of the enterprise.

It may be worthwhile to mention the fact that all employees are not affected by profit motivation in the same way. In their great majority, the employees are interested primarily in the rate of basic wages stemming from statewide tariffs and in the fulfillment of norms. Such is the case even when the share of profits is raised from 4-5 percent to 20 percent of total rewards for labor (it cannot be raised arbitrarily any higher if it is not to acquire an actual stake in gross profit; if the enterprise in its own competence divides gross income into wages and profits, it would obviously prefer to maximize the rewards from the wage component, which as a source of rewards for labor is less encumbered by levies or taxes than profit). That is due not only to a difference in the amount of both components of rewards for labor but also to the chronological distance of specific output from the payment of the share in profit and to some mystification concerning the relation of that output to the amount of profit (worker cannot make decisions about the selection of the line of products, market conditions, etc.) or other circumstances. The responsibility and thus, also profit motivation for the fulfillment of the profit indicator depend mainly on the management of the enterprise.

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All these considerations reflect only a minute part of an unusually complex task--better application of value mechanisms in the creation and fulfillment of the national economic plan, from which it follows that the problems of planned management cannot be resolved by simply returning to value forms alone. Such hopes would not come true. On the contrary, the risks of economic policy-making would skyrocket. The social process of production acts at the same time in the material and value form and thus, it must be managed and controlled in both those forms. The simplest possible processes of management are certainly highly desirable but what can one do if the managed entity is so complex and contradictory and if mechanical parallelism does not apply in the development of both aspects of social product?

The historical trend in the development of the management system is obvious. It arises from a highly social character of the forces of production and from the natural tendency toward further socialization of the production and its management; that tendency stems from scientific-technological progress, in other words, from the process of improving the personal and technical preconditions of management. In this respect, it is imperative to seek further ways to improve the planned management system, to intensify and strengthen its societywide character and to overcome the barriers of formalism and subjectivism. More comprehensive and more rational application of commodity-money relations should become an advantage and help on that road, but we must not expect from it more than it can fulfill.

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## CZECHOSLOVAKIA

### NEW PROFIT TAX TO REPLACE ENTERPRISE PROPERTY TAXES

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[Article by Eng Stanislav Sourek: "New Legal Modification of Payments Into the Federal Budget And of Income Tax"]

[Text] The law regarding payments into the federal budget (No 161/1982 of the Codex) and income tax (No 164/1982 of the Codex) became valid as of 1 January 1983. In their concept and basic approach, they follow up the existing legal modification in these areas which have been valid with practically no substantial modifications from 1972 to the end of 1982, which received an overall positive assessment. However, the new modification of payments into the federal budget and of income tax brings along many significant adjustments (which in the case of payments into the federal budget are based mainly on the Set of Measures), which will have a substantial impact on the fiscal management of economic organizations of all types and at all levels of management.

#### Payments Into Federal Budget

Payments into the federal budget are an important economic tool both from the viewpoint of federal finances, providing one of the key sources of income for the federal budget--and from the viewpoint of enterprise finances--allocating part of the generated profit, eventually also of writeoffs for use in the sphere of enterprise economy, thus forming the framework for khozraschet [cost accounting system] of VHJ [economic production units] and enterprises. Individual types of payments, then, also perform some specific functions by affecting organizations in a certain direction and affect their management, or penalize certain phenomena in their management as a form of sanction. Thus, payments into the federal budget constitute an important part of the system of fiscal management of VHJ and enterprises.

Important from the viewpoint of the mentioned functions of payments into the federal budget is their relatively long-term stability, which is promoted in our country by giving payments legal status in the form of law. This relatively long-term stability was successfully maintained on the whole in the past period, a fact that receives a generally positive acknowledgement.

However, not even the best legal modification can make the function of payments effective and positive all by itself. Payments do not wield any effects by themselves, but in close connection with other fiscal tools within the framework of the system of fiscal management of VHJ and enterprises. This involves primarily centralization and redistribution of financial resources at ministerial department level, allocation policies, rules for utilization of disposable income in VHJ and enterprises, principles for formation and utilization of funds of VHJ and enterprises, etc. For that reason, efficient use of payments calls for a high degree of responsibility and quality of management of fiscal matters at all levels of management.

#### Basic Orientation of the New Modification of Payments Into the Federal Budget

The new modification takes over from the prior modification essentially the entire system of payments into the federal budget with the proviso that the property tax becomes rescinded and its yield is included into the profit tax.

This involves a significant modification which was arrived at through the assessment made of the effects and effectiveness of property tax in the system in existence up to now. The mission of the property tax was to promote more efficient utilization of long-term assets and stockpiles. However, its effects throughout the entire period of its application in the system of payments into the federal budget which have been classified as ineffective, a fact which, after all, is substantiated by the considerably adverse results achieved in the utilization of long-term assets and of stockpiles for many years. Property tax, as an item deductible from the profit-tax base, has thus actually become a certain form of profit tax, specifically a form that is considerably demanding on administration, particularly from the viewpoint of the complexity of computing the base for this tax. Proposals seeking to improve the effectiveness of the role of the property tax were worked out in the course of the preceding period. However, they were not introduced into practical use because their contribution was doubtful and because they posed considerable demands on administration. These circumstances finally led to rescinding the property tax, particularly in connection with the fact that the Set of Measures provides for application of more effective measures whose economic effects should bring about an improvement in utilization of long-term assets and stockpiles. This involves primarily the production assets profitability indicator in direct linkage to the system of incentives, to include individual incentives (the incentive component of wages). Also adopted were many additional measures which are designed primarily to enhance the development of stockpiles. Nevertheless, developments in this area continue their adverse trend, efficiency of utilization of long-term assets and the development of stockpiles evince a permanently worsening trend. Thus, primary among the key tasks is a thorough analysis of the effects of the production assets profitability indicator in the pointed out direction and working out of proposals for some eventual, even more effective measures in economic instruments to provide a more intensive impact on improved utilization of production assets and of stockpiles.

Rescinding of the property tax further served to clearly point out in the entire system of payments into the federal budget its basic and most important

part--the profit tax. The basic change brought about by the modification is a change in the rates of this tax, which is discussed in closer detail below. As regards the forms of profit tax, the new modification retains all the forms used to date, i.e., tax determined by percentage rate (i.e., relative linear tax) which continues to find application in a substantial part of the national economy, tax based on the financial plan (a form of taxing the uncommitted profit balance) roughly in its present extent and a relative tax based on a progressive rate applying to a relatively small sector of organizations (primarily domestic-trade organizations), also approximately in its present extent. A significant change occurs in computation of the profit-tax base through a substantial limitation of includable and deductible items, which considerably simplifies computations, constituting another efficiency-promoting element in the new modification.

Among the items includable in the profit tax base that retain their validity should be mentioned mainly the balance between paid and received penalties and fines. The balance between bank interest penalties and interest bonuses will be newly added to the property-tax base as part of those items. This, in keeping with the Set of Measures, should further strengthen the effectiveness of banking instruments.

Another efficiency improvement feature of the new modification consists in a new system of payment of deposits for profit tax, namely so that the deposit determined from the planned obligation for payment will be paid in January and, starting with February, deposits will be made incrementally from the beginning of the year from profit shown in accounting ledgers (i.e., without projection of items that increase profits--except for a special procedure for redistribution of mine earnings in the coal industry). Any differences will be accounted for in connection with accounting for payments after the end of the calendar year.

A decisive change brought about by the new modification in regard to the profit tax is adjustment of profit-tax rates.

Adjustment of profit-tax rates implements the task contained in the Set of Measures--to increase the share of their own financial resources (profit) of VHJ and enterprises in meeting their needs and thus provide more room for exercising their responsibility and khozraschet management.

The newly stipulated rates continue to be based on the uniform tax obligation of the entire sector or, in some cases, subsector. In other words, the measure of differentiation is essentially based on the existing modification.

The law regulating payments into the federal budget stipulates the following profit-tax rates:

General rate for organization subject to profit tax	75 percent
Mining organizations engaging primarily in mining or processing of solid fuels or ores, prospecting for and extraction of bitumens, power distribution organizations connected into the uniform electrification system whose primary activity is	

generation or distribution of electric energy and heat (with the exception of enterprise-owned power plants), gas industry organizations engaging primarily in generation, distribution and transport or storage of heating gases	50 percent
Geological survey organizations	50 percent
Water-management organizations	50 percent
Spa and mineral spring organizations	50 percent
Building construction organizations	50 percent
Organizations engaging primarily in production of construction materials, organizations engaged primarily in production of structural assemblies or parts destined for capital construction	65 percent
Automotive repair organizations	70 percent
Food industry organizations	60 percent
International economic organizations	50 percent
Foreign-trade organizations	80 percent
Financial organizations	85 percent
Organizations engaging primarily in commerce, marketing and supply organizations, design and engineering organizations, organizations of the scientific research base, organizations of public automotive transportation, organizations in the sphere of culture	progressively 15-70 percent.

Profit-tax rates were computed on the basis of the fiscal plan for 1982 and the budgetary outlook for the years 1983-85, but naturally after recomputation to new wholesale prices.

The Set of Measures was already implemented, as far as strengthening of the khozraschet base of management in VHJ and enterprises (i.e., reinforcement of their own financial resources) in 1981 and 1982 during the validity of the previous modification of the system of payments into the federal budget--which could not be changed instantly as of 1 January 1981 without adequate calculations, knowledge of the 5-year plan, as well as the effects of the change in wholesale prices. The instrument used herein were profit-tax reductions. It involved a relatively wide range of reductions. Thus, e.g., in 1982 the reductions in payments into the federal budget represented more than Kcs 3.2 billion. The use of reductions proved to be viable. The adjustment made in profit-tax rates is now used directly for providing for the financial needs of the enterprise management sphere, so that reductions become substantially limited. The use of reductions is still tentatively retained in the new legal modification of payments into the federal budget, but only in exceptional and essentially isolated cases, as necessitated by the needs to finance planned capital constructions in individual sectors of the national economy.

In simple mechanical comparison of the new profit-tax rates with the previous rates makes the new rates appear higher in several cases (e.g., the new basic rate of 75 percent as opposed to the previous 70 percent). However, consideration must be given to the fact that the new profit-tax rates include the yield from the rescinded property tax which in 1982 amounted to almost

Kcs 19 billion. In a case where the property tax yield would be projected in its full extent into the profit-tax rate, the latter would amount to almost 80 percent. Determination of this rate at 75 percent increases the share of profit in financing the needs of VHJ and enterprises. Such an approach was used essentially in computation of all profit-tax rates. A reverse effect in computation of the new profit-tax rates is a reduction in investment and overall needs in practically all sectors of the national economy, as well as the need to use the requisite share of bank credit in financing the needs of the enterprise management sphere.

The result of determination of new profit-tax rates is a reduction in the overall tax load on the profit generated in economic organizations. The effect of the new tax rates can be expressed to show that the tax load on profit in 1983 would amount under the previous modification to more than 78 percent, which according to the new modification this load will be approximately 73 percent. The level of this load will naturally be differentiated between enterprises and VHJ with a view to different level of profit, return on investment and needs.

According to completed calculations, in comparing the previous and the new modification, internal financial resources in key sectors of the national economy under 1983 conditions will increase by more than Kcs 3.3 billion and in 1985 by as much as Kcs 4.2 billion.

The entire approach to the concept of determining new profit-tax rates is based on the concept of the Set of Measures which emphasized the need for reinforcing the khozraschet nature of financing the needs of VHJ and enterprises, particularly in regard to financing the replacement of fixed assets. In basic branches, particularly in industry, it is based also on the fact that in the enterprise sphere there still remains the possibility of financing investments primarily by depreciation of fixed assets. Differing development of planned needs and of financial resources leads to redistribution of a part of the depreciation of fixed assets in the framework of a VHJ, among VHJ and, sometimes, even at the federal budget level. There has been similar experience in some other socialist countries. For that reason, the previous and the new modification of payments into the federal budget did and does retain payments into the federal budget which are based on depreciation of fixed assets.

The concept of this payment was and continues to be to call for payments into the federal budget on the basis of depreciation in those cases when financial resources for a given branch as a whole exceed the planned need for investments.

Computation of the financing of planned needs, particularly investment needs, in the current 5-year plan on the basis of new profit-tax rates, the share of credit resulting from the credit plan and other resources showed that in many branches there occurred in 1983 an increase in--or initial rendering of--payments into the federal budget on the basis of depreciation of fixed assets. Thus, in comparison with the previous period, payment into the federal budget on the basis of depreciation (as a "residual payment") is increasing. Payment into the federal budget based on depreciation was stipulated for 1983 for

individual branches in the federal budget. It involves the important concept of using depreciation of fixed assets and their overall economic utilization and, in keeping with the task stipulated by the CSSR Government, this problem will be subjected to analysis.

A new element, in regard to profit tax, is introduction of a minimal (guaranteed) payment from profit into the federal budget.

Minimum payment amounts to 85 percent of the planned amount of profit tax for the year contained in the organization's approved fiscal plan. That means that this minimum (guaranteed) payment will become operational when the organization subject to profit-tax payment into the federal budget meets its planned profit generation by 85 percent or less. Such a case involves a very gross negligence in failure to meet obligations to society. The minimum payment, by exerting its economic pressure, should emphasize the responsibility of an organization and its superior organs for dealing with this undesirable situation. It stands to reason that this payment also guarantees revenues for the federal budget. This minimum payment will be met by the organization from its overall profit, then from its contingency fund, eventually from other financial resources stipulated to be taxed.

An important problem in determining the new profit-tax rates is rate differentiation. In this regard, the new modification of payments into the federal budget does not differ in principle from the previous modification, i.e., it retains differentiation of profit-tax rates mainly according to the sector or subsector of the national economy.

The new profit-tax rates reflect from a long-term outlook the relation between resources and needs according to sector (subsector) or branches. However, the situation in profitability, as well as in relations between resources and needs, differs considerably between VHJ and between enterprises. For that reason, redistribution of financial resources will have to be continually taken into consideration as a systemic measure which directly supplements the system of relative profit tax, in some cases with profit-tax reductions--as has already been pointed out--with the proviso that in some branches payments to the federal budget on the basis of depreciation of fixed assets will still apply.

Experience of many years shows that from the viewpoint of effectiveness of payments into the federal budget, but also from the viewpoint of effectiveness of the entire system of fiscal management and khozraschet in general in VHJ and in enterprises, there is an inevitable need for good functioning of the redistribution of financial resources at all levels of management. According to the regulations in force, it involves redistribution of profits and depreciations within VHJ, depreciations and exceptionally also profits among VHJ within the framework of the central organ having jurisdiction over the sector.

At the same time, however, assessment of existing practices, to include assessment of implementation of the Set of Measures, shows that there are many shortcomings in the way financial resources are redistributed, which

detrimentally affect the system of fiscal management and the system of incentives. Redistribution must be planned, justified and must not cause superfluous financial counterflows and, most of all, it must not disguise differences between well and poorly managed organizations. Great responsibility accrues in this respect to central sectorial organs and VHJ, particularly in connection with reinforcing the responsibility and jurisdiction of VHJ as the basic link of management in the enterprise sphere incorporated in the Set of Measures and in attendant legal regulations, to include the law regulating payments into the federal budget. According to this law, VHJ are subject to paying profit tax into the federal budget. Thus, enterprises within the VHJ pay the tax from profit to the VHJ (general management) that determined its amount. In this manner, the VHJ for all practical purposes formulates the fiscal management of enterprises and delineates its effectiveness. Under these conditions, it is imperative that responsibility and jurisdiction in fiscal management between VHJ and enterprises be distributed so as to provide sufficient leeway for development of the kholzraschet of enterprises within the VHJ as well as of intraplant kholzraschet of enterprises. This requires primarily that the enterprise feel the responsibility for its economic results; the latter must be the decisive factor for financing of its needs and its system of incentives. What must be primarily prevented is excessive centralization of financial resources at VHJ, counterflow of financial resources between VHJ and enterprises, etc. Experience shows that it is specifically these shortcomings that are most often encountered at the VHJ level. Redistribution of financial resources must be, as has already been pointed out, planned and justified and its forms must promote development of kholzraschet in enterprises.

For all practical purposes the social security contribution remains unchanged in comparison with the previous modification in the new modification of payments into the federal budget. Its general rate continues to be 20 percent and its uniformity continues to be promoted. Payment of deposits for this contribution is being simplified and so is, in a way, also the computation of its base.

Supplemental payments also remain an important part of the system of payments into the federal budget. In comparison to the previous state, the new modification deletes payments for exceeding the limit of wage funds, as there has been a change in the manner of regulating wage-fund development. A more precise formulation was made for the payment for infraction of price regulations to bring it in harmony with the price regulations in force. As opposed to the previous state, the new modification will also make supported as well as budgeted health, sport, cultural and educational organizations subject to supplemental payments. That will provide for uniform effects of supplemental payments on all types of organizations.

Authorization measures (for the government and the Ministry of Finance) also occupy an important position in the new modification of payments into the federal budget. A new element is authorization of the CSSR Government to regulate (increase or decrease) by its directive the profit-tax rates and the social security contribution by up to one-fourth in linkage to basic modification of economic instruments.

This authorization, which has been newly incorporated into the modification of payments into the federal budget, should promote the stability of legal modification of payments in cases when substantial changes should occur in economic instruments during the course of the law's validity, particularly prices or some basic rules (e.g., merging of profit from internal economy and from foreign trade). It is to enable the CSSR Government to react more expediently in such cases by adjusting the profit-tax rates and eventually the social security contribution, and preserve fiscal balance between the federal budget and the khozraschet sphere. The law further incorporates authorizations, known from the previous modification, for the Ministry of Finance to deal with hardships and discrepancies and to grant reductions in profit tax when the sector as a whole experiences a shortage of financial resources, particularly for meeting planned investment needs, if the situation cannot be resolved in some other way. All of the listed authorizations create conditions for improved long-term stability of legal modification of payments and for expedient reacting to changing conditions in the national economy.

The new modification of payments into the federal budget contains some elements for promoting efficiency which translate into simplifying the administrative tasks attendant to payments into the federal budget in organizations as well as in fiscal organs. The modifications primarily involved are the following:

- repeal of the property tax (and, consequently, rescinding of the administratively demanding computation of its base),
- simplified computation of the profit-tax base through substantial limitation of includable and deductible items and simplified computation of the base for the social security contribution,
- simplified payment of deposits for profit-tax and social security contribution,
- simplified proceedings in regard to payments into the federal budget.

#### Income Tax

Organizations of the most varied types engaged in varied activities are subject to payment of income tax. These involve primarily organizations controlled by national committees that provide public services, paid services, local construction, local production or collection of secondary raw materials as well as regional transportation centers, production, consumer and housing cooperatives and other cooperative organizations, social organizations, international organizations, other than economic, located on CSSR territory and subjects residing abroad. The law also further specifies some other organizations as being subject to this tax. The specificity of this tax is thus constituted by the fact that it must reflect in its rates the varying conditions among the individual groups subject to the tax. This tax also reacts from the viewpoint of the society as a whole to the functions carried out by the individual subjects. The law also stipulates tax exemption for specific organizations, such as production cooperatives of the disabled, artistic associations, cultural funds, higher organs of social organizations united in the National Front and economic facilities linked directly to their budget and some other organizations.

## Basic Changes in the New Income Tax Modification

Basic changes in the new legal income tax modification concern the profit tax which constitutes its basic component. The new modification provides primarily for a change in the level of income-tax rates as compared to the previous modification. The form of taxation changes as well in certain cases. The profit-tax rates are newly determined according to the main groups subject to income tax as follows:

--for economic organizations controlled by national committees which provide public services, paid services and local production and for production cooperatives 75 percent;

the linear profit-tax rate here replaces the former progressive form of taxing profits according to the achieved return on investment. This change strives for: providing economically identical conditions (for taxation) of their productive activities, as the stipulated rate is identical to the basic profit-tax rate according to the law regulating payments into the federal budget, eliminating the potentially negative effects of progressive taxation on interest in growth of return on investment, simplifying administration. To preclude the new tax rate from putting at a disadvantage organizations performing services, the law allows granting of profit-tax reductions for services which are listed in closer detail below:

--for district (municipal construction enterprises) 70 percent;

according to computations this rate corresponds to their economic conditions and to the extent of redistribution carried out by national committees in these organizations;

--for the URD [Central Council of Cooperatives] and for cooperative associations (with the exception of housing cooperatives), for cooperative enterprises (with the exception of cooperative enterprises for foreign trade) without regard to the nature of activities 50 percent;

--for so-called small service cooperatives engaged in services to the populace 50 percent;

--for cooperative enterprises for foreign trade 80 percent;

here the stipulated rate is the same as for organizations of foreign trade in the law regulating payments into the federal budget;

--for social organizations, housing cooperatives and international organizations subject to this tax 35 percent;

--for consumer cooperatives there is stipulated a progressive profit-tax rate in relation to return on investment, essentially without any substantial changes in comparison to the existing state;

in this case, the selected form of taxation corresponds to the profit tax for organizations of the state domestic trade according to the law regulating payments into the federal budget.

The income tax law also stipulates some additional profit-tax rates.

The new modification of income tax also simplifies computation of the profit-tax base in keeping with the law regulating payments into the federal budget in regard to profit tax, by a substantial limitation of includable and deductible items. Payment of profit tax deposits is also simplified.

#### Preferential Tax Treatment for Development of Services

The new income tax modification fulfills yet another important task stipulated by the Sixth Plenum of the CPCZ Central Committee, that is, promoting the development of services for the populace by preferential tax treatment of organizations providing services. The specific form of this preferential treatment is a system of reductions for services from the profit tax.

Reductions for services will be granted according to the new modification to local economy organizations controlled by national committees and to production cooperatives according to the ratio of services in the reduced output of the organization. The higher the share of services, the higher will be the profit tax reduction, whereby the reduction will increase progressively according to the following scale:

At a share of reduced output through services to the populace in total reduced output in percent	For each percent of the share of reduced output through services to the populace in total reduced output in percent
up to 10	0.20
from 10 to 20	0.25
from 20 to 30	0.30
from 30 to 40	0.35
from 40 to 50	0.40
from 50 to 60	0.45
from 60 to 70	0.50
from 70 to 80	0.55
from 80 to 90	0.60
above 90	0.70

The maximum profit-tax reduction can amount to 70 percent.

Reductions for services were also granted within the income-tax framework according to the preceding modification. However, the new modification substantially increases the extent of these reductions in comparison with the earlier modification. According to the quantifications made, the extent of reductions for services will increase under 1983 conditions from the Kcs 370 million according to the previous modification to approximately Kcs 725

million, practically doubling it. In addition, the considerable administrative complexity of the previous system of reductions is also eliminated. Consideration should also be given to the fact that in the new modification the effects of the progressive increase in reduction for services on the services themselves according to their ratio is closely geared to the new objectivized rate of taxation of local production. This creates conditions conducive to motivate the economic interest of organizations toward increasing the share of services at the expense of production. That is the key reason for implementing this measure. The new modification provides for continued operation of these effects even under a situation when services provide an essentially lower profitability than do productive activities. The quantifications made show that the listed scale of reductions for services makes sure that an organization which increases its share of services at the expense of production and whose services are only half as profitable as its production activities will have more of its profits at its disposal after taxes than if it continued to engage in production instead of in services. Thus, e.g., if an organization increases its share of services in total reduced output from 50 percent to 75 percent (with profitability of services representing only one-half of the average profitability of production), its overall volume of profit after taxes will increase by almost 17 percent. An organization that engages in services exclusively will, according to the new modification, have a profit-tax rate of merely 22.5 percent (in comparison to an organization engaging exclusively in production, which will be taxed at the 75 percent rate).

Reductions for services cannot by themselves create the conditions for development of services. Their effects will operate together with other additional measures adopted and worked out on the basis of the Sixth Plenum of the CPCZ Central Committee and on the basis of the approved principles for a more effective management and a more flexible development of paid services. It is extremely important that the financial resources obtained by organizations controlled by national committees and by production cooperatives from tax reductions be actually used for development of services, to include improving their logistical base. A contribution to this end should also be made by the adopted principle that 30 percent of tax reductions are to be applied directly under the jurisdiction of the pertinent organization toward improving the logistical base of services, specifically in the form of allocations to the fund for repairs and modernization established in local economy organizations as of 1 January 1983. The same procedures should apply in the area of production cooperatives.

The so-called small service cooperatives which are to be established for providing services for the populace, will not receive the above-mentioned reductions for services. Their preferential treatment is provided by setting the profit-tax rate at 50 percent. It will also be possible to make these cooperatives tax exempt for a certain period at the outset of their operations.

In regard to the social security contribution which is a part of the income-tax modification, just as in the case of the law regulating payments into the federal budget, there occurs a maximum unification of its rate at 20 percent and a simplification of payment of deposit for the contribution.

The income-tax law incorporates authorizations for the government and for the ministries of finance similar to those of the law regulating payments into the federal budget (which were discussed in closer detail above).

Just as in the case of the law regulating payments into the federal budget, the income tax law also includes several efficiency-promoting elements which will lead to simplified administration in organizations and in fiscal organs. These involve primarily the following measures:

- replacement of progressive taxation of profit in key groups of subjects to this tax by linear taxation;
- simplified computation of the profit-tax base;
- simplified system of reductions for services;
- simplified payment of deposits on profit tax and on social security contributions;
- simplified tax proceedings.

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Both laws represent significant legal acts whose contents directly affect the entire sphere of enterprise economy and other organizations. Modification of payments into the federal budget and of income tax is also of great importance to the federal budget. All control organs must contribute to active operation of the effects of payments and of income tax by correct application and utilization of other economic instruments in practice, because payments and taxes are closely tied to their effects and vice versa. This involves another important step toward implementation of the Set of Measures which all organizations and control organs must first of all learn how to implement efficiently and actively utilize.

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CZECHOSLOVAKIA

SIGNIFICANCE OF ENGINEERING INDUSTRIES FOR FOREIGN TRADE VIEWED

Prague NOVA MYSL in Czech No 4, 1983 pp 56-64

[Article by Josef Hejsek: "The Key Significance of Engineering in Foreign Economic Relations"]

[Text] Engineering and electronics form the largest production complex of Czechoslovak industry. In 1982, their share in total industrial production was 30.4 percent and their volume was Kcs 188.8 billion (in 1 January 1977 prices). In the current period, engineering is under the control of two ministries and electronics is administered by one ministry. Deliveries by the enterprises of the FMHTS [Federal Ministry of Metallurgy and Heavy Engineering], the FMVS [Federal Ministry of General Engineering] and the FMEP [Federal Ministry of the Electronics Industry] satisfy a large part of the national economy's need for capital construction in both the production and the nonproduction spheres, contribute to covering the domestic market [demand] for manufactured goods, and contribute a 50 percent share of all Czechoslovak exports. A significant portion of engineering production, over 20 percent, with a value of about Kcs 37 billion, is in production programs of nonengineering departments and cooperatives and in operations of communal services and the local economy.

Our engineering industry entered the postwar period with a production structure corresponding to historical development in the first republic and of wartime economics from the period of occupation.

At the Ninth CPCZ Congress the major directions were established for the development of engineering over a period of two 5-year plans, i.e., 1949-1953 and 1954-1959. It was decided to strengthen the production basis primarily:

--as regards the manufacture of means of production, in order to provide for planned industrialization of the national economy and collectivization of agriculture,

--in accordance with the needs of the other socialist countries for industrialization, to provide for the exportation of machinery and equipment,

--in providing for the necessary capacities for strengthening the defense capabilities of our country and the other socialist countries.

Engineering was assigned the role of chief provider and payer for raw materials, since an active balance in the area of foreign trade in machinery was supposed to create room for importing raw materials and foodstuffs.

Deliveries of light industries were to be adequate to cover only domestic demands and were to be excepted from exports to capitalist countries, thus achieving a decrease in imports of raw materials for light industries (leather, textiles, etc.).

At the February 1950 plenum of the CPCZ Central Committee, it was decided to orient our industry primarily toward the manufacture of products which would have permanent markets, i.e., primarily the manufacture of heavy machinery.

The correctness of this decision is attested to by the fact that the goals set were met for practically 30 years. Throughout this period we progressively increased deliveries of machinery and equipment to the socialist countries. The balances of import and export of machinery and equipment with the CEMA countries rose nearly four times between 1965 and 1980.

In contrast, between 1965 and 1980 there was a 4.5 time increase in deliveries of raw materials of every sort including foodstuffs from the socialist countries. The fact that the active balance in the area of machinery compensated for the passive balance in the area of raw materials is in no way affected by the fact that this was not absolutely true for individual years, that the constantly rising balance in the area of machinery was not sufficient, and that the export of products of a consumer nature was increasingly linked to paying for the import of raw materials, especially from the USSR.

The line of the priority status of engineering, including industry, was further strengthened at party congresses and plenums of the CPCZ Central Committee.

At the Ninth CPCZ Congress the engineering industry was oriented toward programs of construction in the chemical engineering industry, of assuring increased production for the power supply and metallurgy industries, and increased production of electric and diesel locomotives, expanding the production of shaping and forming machinery and of tools, and providing capacities for the metallurgical engineering industry and machinery for the construction industry. A program was also outlined for this period which called for an increase in the manufacture of electronic equipment and of measuring, regulating and computing devices; this program was given high priority at the time as being necessary under the conditions of the scientific-technological revolution. Stress was placed on the significance of comprehensive mechanization and automation in increasing labor productivity, especially in implementing large-scale assembly-line and bulk production. These tasks, in general correct, made more specific in the Third 5-year plan, were not fulfilled in all respects.

In 1963, the engineering industry underwent unfavorable development in that the volume of engineering production was lower than in 1962. Goals were reevaluated as regards both domestic [consumption] and exports. This complex

situation was affected by the change in China's investment policy, which led to a large cancellation of orders.

The tasks of the Fourth 5-Year Plan, as formulated at the 13th CPCZ Congress, were overfulfilled by the engineering industry. The congress stressed the industry's tasks as regards exporting to the capitalist countries, raising the standard of living, and developing the tertiary sphere (dwelling units, highways, the Prague subway, etc.). A program of accelerated development of the manufacture of automobiles and consumer electronics and electrical appliances was outlined. The planned 43 percent increase in engineering production was exceeded, amounting to 55 percent, despite the fact that in engineering, as in the national economy in general, a revisionist interpretation of the ideas and goals of the economic reform resulted in a disruption of continuous development.

The growth of engineering production for 1970 was 1.55 times that for 1965 and, while it contributed 22.6 percent of industrial production in 1965, by 1970 this had risen to 25.5 percent.

Temporarily uncontrolled development was fundamentally reversed by the April and May 1969 CPCZ Central Committee plenums as well as by other measures taken, which contributed to overfulfillment of the planned tasks of the Fourth 5-Year Plan and to overall consolidation throughout the country. At the 14th and 15th CPCZ congresses the priority status of engineering and electronics in the development of the Czechoslovak economy was confirmed. A basic task for engineering was determined to be export to the socialist countries and the need was stressed for increasing our ability to export to the markets of the nonsocialist countries. In addition to the tasks of increasing deliveries to stockpiles of marketable goods during the Fifth 5-Year Plan, it was decided to establish comprehensive, ensured structural changes in engineering in specified developmental programs. A strategic direction for the period of both 5-year plans was to be increased efficiency through technological development and the systematic utilization of a socialist division of labor. Originally, selected products and equipment fitting into 18 categories were included in engineering developmental programs, but in the final years of the Fifth 5-Year Plan these were expanded to include lignite-mining equipment, conveyor belts and nuclear power.

From the first years of the Fifth 5-Year Plan, the implementation of economic ideas was negatively affected by problems in obtaining energy, fuels and raw materials of all kinds, and by marketing problems in regard to exporting, primarily to the capitalist countries. Together with other factors (such as, for example, a decrease in the rate of growth of personal consumption, etc.) the period 1970-1980 showed a decline in rate of growth of production in the engineering industry. Thus, for example, the growth index for engineering for the period 1975-1980 [presumably for 1970-1975] was 15, while for 1975-1980 this had fallen to 1.4. Machine-building's share in industrial production however, continued to increase. In 1970, it was 25.5 percent; in 1975, 27.7 percent; and in 1980, 30.8 percent.

The intensity of structural changes expressed by the production dynamics of developmental programs was significantly higher in the Fifth 5-Year Plan, when

their production increased 87.4 percent, with computer technology rising nearly 350 percent, advanced textile machinery and agricultural machinery 250 percent, microelectronics 300 percent, etc. In contrast, during the period 1975-1980 the production of these developmental programs rose only 55 percent, while a number of them did not achieve even the average rate of development of the engineering industry as a whole.

#### The Role of Engineering and Electronics in Czechoslovak Foreign Trade

The basic concept of building a socialist economy in all the stages of its development up to the present has involved strengthening the key role of engineering in exporting. This long-range aim has essentially been realized as regards the socialist countries, but not, however, in the overall structure of Czechoslovak foreign trade. In relation to the CEMA countries machinery is a key means for adjusting the balance of payments and in relation to the nonsocialist countries the ratio of Czechoslovak imports and exports of machinery has achieved a passive balance which was adjusted by exporting metallurgical products, especially rolled material.

The following data show the development of the rate of growth of engineering exports for the past 10 years in wholesale prices:

Export indices 1980-1970	
Mechanical engineering:	204.3
Heavy engineering	185.6
General engineering	210.0
Electronics industry	244.1
Ministries of industry	198.1

Source: Materials of the SPK [State Planning Commission]

The table shows that the exporting of engineering products has progressed at a rapid rate. In the area of high-voltage electronics, we exported electric motors, cables, etc., and in the area of low-voltage electronics, we exported a components basis, such as, for example, semiconductors, integrated circuits, black and white picture tubes, and peripheral equipment of computer technology and of capital investment electronics such as radio and television transmitters. We have not, however, succeeded in realizing the planned rate of exporting complete industrial plants to the nonsocialist countries primarily from heavy engineering and thus achieving a rapid rate of increase in the export of machinery as a whole to the markets of the nonsocialist countries.

Our foreign trade during the Sixth 5-Year Plan was unfavorably affected by a number of circumstances, in particular by the rapid rise in prices of raw materials and the crisis development in the nonsocialist countries, but also by severe competition on the world markets and by the quality and technical

level of certain products. As regards foreign trade, the past few years have witnessed a lasting deterioration in trade relations. We must in the years to come also count on an unfavorable development of trade relations caused by a significant increase in world prices of petroleum, natural gas and raw materials.

Miniaturization and electronization, deliveries of machinery, equipment, and instruments for regulation and precise measurement and apparatus for automation, and improved quality of all instrumentation and technology both in industrial machinery and in engineering consumer goods, have made it possible to increase the per kilogram prices of machinery installed at home and sold abroad. This tendency will continue. It is, however, essential to systematically create the conditions for its realization.

The gradual reestablishment of an equilibrium in external economic relations can be achieved only through increasing exports in finished products and decreasing demands for imports. The exportation of our products to the world market is being accomplished under increasingly more difficult conditions, to which the Czechoslovak economy does not react with sufficient flexibility, thus losing its former privileged status. As regards world per capita turnover of foreign trade, the CSSR was in 18th place in 1980, with Bulgaria in 15th and East Germany in 16th place. There was also a significant drop in the percentage share of Czechoslovak engineering exports out of total world exports. In 1970, this share was 2.1 percent, and in 1980 only 1.3 percent.

A key position in the development of the national economy in the Seventh 5-Year Plan and throughout the eighties will continue to be occupied by mechanical engineering. It plays a decisive role in satisfying our domestic demands, in making possible scientific-technological progress, and in improving our standard of living and balance of payments.

For the Seventh 5-Year Plan the Czechoslovak engineering industry attained the following rate of export:

	1985
	1980
Engineering departments as a whole.	145.8
Separate departments	
FMHTS	142.8
FNVS	141,2
FMEP	175.6

Source: Materials of the SPK

The trade balance for engineering production for the Seventh 5-Year Plan is characterized by the same data (in KCS billions of the FCO<sup>1</sup> price of the 1982 plan)

	1981	1982	1983	1984	1985
	realized	planned	proposed		
Export-import balance as a whole	26.4	35.1	41.9	44.3	53.2

Source: materials of the State Planning Commission

The export tasks of the engineering industry to CEMA countries derive basically from long-term trade agreements which have already been concluded. The greatest increase in exports of machinery is to the USSR, while the rate is lower for the other CEMA countries. The role of engineering exports to the socialist countries is essential. Therefore the level of exchange of goods with the socialist countries is considered insufficient. To increase the role of engineering in relations with socialist countries we must seek mutual increases in specialization and cooperation in production.

As regards relations with the nonsocialist countries, there have been basic qualitative changes in comparison with the Sixth 5-Year Plan. In accordance with the conclusions of the 16th CPCZ Congress, it has been decided that the rate of increase of exports must overtake that of imports.

For engineering as a whole, we are assuming a marked increase in the technological level and quality of products comparable with that of the advanced technologies, the attainment of a corresponding rise in export prices, an upgrading of imported raw materials, and an acceleration in the innovative process. On the average, there are to be 14.5 percent higher export levels of machinery and equipment during the period 1981-1985. It is obvious that such a high rate of export implies a certain degree of risk (such as, for example, political embargos and discrimination, increased competition, a rising imbalance of payments, a stricter international credit policy, price increases, etc.).

Engineering enterprises must make increased efforts to meet the demands of foreign trade and adapt production to the needs of customers. The Set of Measures, in the area of foreign economic relations, introduced a system of financial economic instruments which contribute to the required increase in export efficiency. It enables engineering enterprises which make products for export and receive favorable prices in foreign markets to share favorable in the financial results achieved by foreign trade.

The export tasks set for the engineering departments for 1983 are highly demanding. One of the preconditions for fulfilling the export tasks of engineering is the realization of tasks of the state goal-oriented programs

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<sup>1</sup> FCO price--price of a foreign trade contract adjusted for direct hard-currency trade costs.

whose production is to increase 11.8 percent, while its share in the volume of production by engineering departments is to rise 8 percent in 1982 and 8.6 percent in 1983.

#### Linking the Czechoslovak Engineering Industry with Socialist Economic Integration

The further development of the Czechoslovak economy and increased efficiency will derive from increased participation of the CSSR in the international division of labor and in the development of socialist economic integration of the CEMA member countries. The basis for Czechoslovak economic foreign relations will continue to be economic and scientific-technological collaboration with the CEMA member states, above all with the Soviet Union.

The degree of linkage of the Czechoslovak engineering industry with socialist economic integration can be expressed as the share of exports of specialized machinery out of total exports of machinery to the socialist countries. In the final years of individual 5-year periods this share (in percents) was:

1960	1970	1975	1980
7	17	22	33

Source: Methodology of the Research Institute of Engineering Technology and Economics

In 1980 the highest degree of linkage to socialist economic integration, or 36 percent, was attained by the enterprises of the general engineering sector, while the enterprises of the FMHTS attained a 28.2 percent and those of the FMEP about a 32 percent share.

Czechoslovak engineering, among other things, participates through its deliveries of machinery, equipment and instruments, to the construction of capacities built by the joint efforts of participating CEMA member states, such as, for example, the construction of the Druzba oil pipeline, and the system of gas pipelines for transporting gas from the Soviet Union to the CEMA member countries and the countries of Western Europe. In the area of power supply, there has been collaboration in constructing the Chmelnice nuclear power plant, which has an output of 4,000 MW, in building high-voltage electric lines between the CSSR and East Germany, Poland and Hungary, and in supplying equipment for nuclear power plants of the Soviet type (VVER) within the framework of an agreement reached by the presidents of the governments of the CEMA member countries in June 1979 for the period through 1990. According to this agreement, the most important producer and supplier of nuclear power equipment, after the Soviet Union, is Czechoslovakia. As regards the range of 30 specialized items, in the CSSR we manufacture in particular complete VVER 440 reactors and we are making preparations for manufacturing equipment for VVER 1000 reactors--steam generators, main circulation pipelines--[as well as] equipment for protection of the living environment for the VVER 440, turbines for the VVER 440, 220 MW generators, computer systems, and control instruments. The agreement is significant mainly for the fact that dependable coordinated efforts and the collaboration of member countries have created a production

basis for the development of a nuclear power industry as a key source of energy systems of the participating countries for the period to come.

In 1980, a Long-Term Program of Specialization and Cooperation in Production was signed by the CSSR and the USSR for the period through 1990, on the basis of which subprograms have been developed, whose essence is as follows:

- specialization and cooperation by the industries of both countries;
- the introduction of new sorts of machinery and equipment in both countries;
- a measure for decreasing the dependence of import of machinery and equipment from capitalist countries where there are bans or limitations by the administration of these countries;
- a decrease in hitherto parallel manufacture of machinery and equipment;
- scientific-technological collaboration in a given branch, in particular an increase in the level of specialized products;
- the introduction of new technological production processes in a given branch.

The realization of the individual measures of the above-mentioned Long-Term Program, which presumes organizing the manufacture of 27 groups of new types of machinery and equipment and component products in 30 production sectors, presumes testing the possibility for mutual cooperation in production along with increasing the utility and technical level and quality of engineering products.

A large amount of attention has been paid to developing collaboration in the area of the electronics industry, where positive results are already being achieved, for example, in electronic lithography, in the manufacture of special analytic equipment for different branches of industry, for scientific institutes, etc. and of microprocessors, and in the areas of integrated circuits and picture tubes for color television. There are good prospects for collaboration with the Soviet Union in the area of development and manufacture of robots and manipulators.

Overall evaluation of the results obtained through linking the Czechoslovak engineering industry with socialist economic integration proves the significance and effectiveness of this collaboration.

Through specialization and cooperation in production we have achieved increases in serial production of a number of engineering products along with an increase in the efficiency of their production. In the CSSR, we produce, for example, large series (judging by world standards) of locomotives, textile machinery, vans which can carry up to 12 tons, and other equipment. We have narrowed the range of products manufactured by the Czechoslovak engineering industry and the demand for these is filled by imports, such as, for example, machinery for the repair and maintenance of railway lines, [freight] containers, caterpillar tractors, bulldozers, subway cars, STB weaving looms, leatherworking and shoemaking machinery, grain combines, surface vessels, home sewing machines, etc.

An increase in the serial character of production leads to a decrease in production costs and an increase in production efficiency, which are naturally

reflected in profitability of exporting products. Among the most efficient specialized industrial items are products of medical technology, products of industrial automation, wrapping and filling machinery, gas turbines, machine tools, meters, tools, industrial sewing machines, food service equipment, and the like.

It must be mentioned that an increase in specialization and cooperation among engineering industries makes it possible for the CSSR and the CEMA countries to decrease inefficient imports of advanced engineering technology from the developed capitalist countries. The goal of the CEMA countries is to trade with these countries on a basis of mutual advantageous relations.

An accelerated and marked strengthening of the export capability of our economy is considered to be one of our strategic goals. Their mastery will depend on fulfilling the basic goals of our socioeconomic development. Fulfilling these goals must be a concern of all parts of the national economic plan, in particular of the plan for capital investment, where a much higher share than hitherto must go to programs which assure, in the shortest time possible, a realistic growth of effective stockpiles of export goods which have a good chance of selling on the markets of both socialist and nonsocialist countries.

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A key factor in the economic relations of socialist and nonsocialist countries is the fact that there exists a world economy which is the material basis for a guarantee of world peace and the development of multilateral world collaboration.

Another very significant circumstance in the long-term process of intensification of the international division of labor based on internationalization of labor. Very closely connected with this is the development of production forces in both the world systems and thus on a worldwide scale. Even though scientific knowledge is contributed to the production process by people--by the labor force, people apply their knowledge to changing production via production tools--machinery. All this depends on the demand for a constantly improving production-technology basis of all branches dependent on engineering.

The development of the individual branches of industry and within the branches of engineering is highly differentiated. There is constantly increasing dependence on a knowledge of such sectors of engineering as, for example, the production of equipment for nuclear power plants, nuclear fuel production and electronics. These few facts alone prove the interest of the individual countries and socioeconomic systems in developing trade and economic and technical collaboration within engineering. The development of Czechoslovak collaboration in the engineering and electronics industries is evident that what is involved is not only a simple form of trade agreement but, to an increasingly greater extent, broader economic collaboration on a bilateral and multilateral basis.

The key directions of the developmental tasks of the Czechoslovak engineering and electronics industries, based in particular on progressive structural

changes imposed on the implementation of scientific-technical development during the Seventh 5-Year Plan and beyond, are being worked out and realized in very close ties with the international division of labor. A phenomenon of scientific-technical development in the engineering industries is the rapid obsolescence of production structures and product ranges.

The number of new products is constantly increasing and the range expanding. This fact, along with the need to automate production in engineering itself, puts very great pressure on accelerating the process of the international division of labor. Socialist economic integration is, therefore, vitally important to Czechoslovak economy as a whole and to the engineering and electronics industries in particular. The further development of mutual exchange between engineering production presupposes improved technological and economic parameters of machinery and equipment, which are the bearers of increased production efficiency and socialist labor productivity.

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CZECHOSLOVAKIA

AGRICULTURAL PLANT VARIETIES APPROVED

Prague ZEMEDELSKE NOVINY in Czech Supplement Zemedelec 11 May 83 p 2

[Article by Eng Jan Schmidt, Central Control and Testing Agricultural Institute: "Significant Innovation in Agricultural Plants Assortment"]

[Text] The Central Agricultural Control and Testing Institute [UKZUZ] in Prague and Bratislava assessed the results of strain tests and reached the appropriate conclusions that involved 221 strains. Thus, e.g., in the case of field crops it submitted to the State Strain Variety Committee 80 proposals for approval, 26 of them for authorizing new strains, 13 for restricting--to be deleted from the List of Authorized Strains, etc.

The UKZUZ proposals were first discussed in subcommittees of specialists in grains, fodder plants and root crops and the final recommendation was approved at the plenum of the strains committees of the CSR and SSR ministries of agriculture and food on 14 April 1983 in Bratislava. The indubitably positive aspect of this year's changes in the assortment of authorized strains is the fact that the systematic efforts of many years of our cultivators met with ultimate success, i.e., authorization of new strains--involving almost all the key types of plants.

Cereals

In the case of winter wheat, the State Strain Register will receive a new entry n. sl. [newly cultivated] UH 7050 (from the Uhretice Cultivating Station (SS)) under the designation ZDAR, n. sl. ST 907-77 (SS Stupice) under the designation SABINA and n. sl. BU 18 (SS Bucany) under the designation IRIS. All of these strains have one common property--improved resistance against diseases, i.e., the prerequisite for improved stability of their yield. The ZDAR strain is a semilate strain resistant against chaff rust, diseases of stem heils and parasitic fungi. Even after some thinning out of the growth during winter it can regenerate very well and a small amount attains above-average, almost peak yields of grain that can be used for bakery purposes. The SABINA strain is semilate to late and will make it possible, under the intensive conditions in potato growing areas, to divide peak loads of labor during harvesting, it is resistant against ergot, diseases of stem heels, parasitic fungi and grass rust. Thus, it also has the prerequisites for stabilizing

yields in northern Moravia. It is particularly resistant against lodging and there is no need for using Retacel. The yield effect will become particularly pronounced in localities and areas with a higher occurrence of diseases. The IRIS strain is semiearly and also resistant against rusts--chaff, grass and partially against ergot and diseases of stem heels. Similarly to the ZDAR strain it also has very good regeneration and compensation properties creating the prerequisites for high yields. Its areal assignment is primarily for Slovakia with utilization of grain only for feeding purposes.

The demand for Durum wheat grain for production of pasta products--of the macaroni type--has been met up to now by imports. For that reason, over the past several years experimental verification of the possibility of producing our own grain in the form of spring wheat has been pursued. Testing included a wide assortment of strains from abroad, with the best results being obtained with the GRANDUR strain from Austria, both in regard to state of health and yield as well as quality of grain. It will be entered into the Imports List in case of need. The small assortment of authorized strains of winter barley was supplemented by another strain from the GDR--BORVINA. In comparison to the ERFA strain it produces more offshoots and higher yields, but only in favorable locations and soils.

Among spring barley strains, new cultivation of ST 6194 (SS Stupice) under the designation MARS was authorized. It is a high-grade strain of malting barley with medium production of offshoots, high resistance against lodging, semiearly in ripening. Its grain quality has the prerequisite for inclusion in the "select" category. In areas typical for malting barleys--beet- and corn-growing regions--it steadily achieves a high grain yield. Its genetic base of resistance against parasitic fungi is different from that of other strains, such as KORAL, KRYSTAL and KARAT. Seeding some acreage with this strain would thus provide a certain amount of insurance in the case of a parasitic fungi epidemic. It is also suited for use as a cover crop for seeded acreage.

The assortment of oats was supplemented by the white-grained "VV 105" strain (SS Vetrov) under the designation ORLIK. It is a very early-ripening strain with somewhat shorter strong stem resistant to lodging, but is more demanding on soil and soil water conditions. Its yield approaches that of standard strains and at the same time the grain contains 10 percent more protein (i.e., 1.5 percent more in absolute volume). Thus, it can also be considered for production of oatmeal and, because of its phenotype, as a covering crop for clover-seeded acreage.

#### Corn

Of considerable importance to the fodder base will be two new corn hybrids containing more lysine. This involves the hybrid [H] CE 425 L (tested under the designation 295-L at SS Cejc) and the hybrid TA 285 L (tested under the designation TA 104/74-02 at the research institute in Trnava), whereby the number in the designation of the hybrid corresponds to the ripening group according to FAO. Both hybrids are bilinear. H.CE 425 L is then a medium- to late-ripening hybrid to be cultivated for seed in corn-growing areas, achieving a grain yield of 85 to 90 percent of standard hybrids, but its lysine content is higher by 30-40 percent. Seed is produced on a sterility basis without refertilizer.

The hybrid TA 285 L is semiearly and comes under consideration for use in peripheral regions for growing corn for seed. Its grain yield is 90-95 percent of standard hybrids, its lysine content is higher by 20-30 percent. Manual castration is called for in seed production.

Consideration for cultivation for seed in corn-growing regions is given to the foreign hybrid Pioneer 3906 "ORNELA," which corresponds to FAO group 420 and is thus medium- to late-ripening. Its yield is at the level of H.C 420, but it ripens better. It will be entered into the List of Strains Authorized for Imports in case of need.

#### Legumes

Efforts to increase the production of "cheap" plant proteins became oriented in Europe particularly toward legumes. The Czechoslovak assortment, the seed of which has been successfully exported abroad over the past several years, and in substantial quantities, will be supplemented by two additional strains. The strain of pea for cultivation for seed--LU-Y (SS Luzany) will be entered under designation TOLAR. It is an intermediary type of pea with large yellow grain whose yield matched peak yields of the BOHATYR strain. It is less demanding on soil water and has a shorter cooking time. Another pea strain--HM 714 (SS Horni Mostenice) was designated "ODEON" and is destined to be cultivated for green fodder. Within its variety, it ripens up to 10 days earlier than ARVIKA, approximately the same as the NIKE strain, but provides higher yields without any bitter substances. Its grain is fine and yellow.

#### Oleaginous Plants

In the group of oleaginous plants, a new strain of winter rape plant OKE-3 (research institute in Opava) under the designation SILESIA, was authorized. It is the first Czechoslovak strain with a minimum content of erucic acid which matched in its resistance against frost, seed yield, etc., the popular JET NEUF strain. Entry into the List of Strains Authorized for Imports in case of need will be provided for the LORAS strain from the FRG as the first spring rape plant of the so-called 00 type, i.e., with minimum contents of not only erucic acid, but also of glucosin derivatives. For imports in case of need, there were also entered two hybrids of sunflower NS-H-26-RM and NS-H-27-RM from Yugoslavia, destined for combine harvesting of seed in Slovakia.

#### Perennial Fodder Plants

From the group of perennial fodder plants, there was authorized the Czechoslovak strain of JORDAN creeping clover (SS Palupin, tested under the designation PN-V) with improved endurance in use and better seed production than Pastevec. The METROPOL perennial darnel (SS Levocske Luky, in tests LL-7) also showed better endurance and yield, particularly in comparison to the ROZNOVSKY and BACA strains, ripening 5-6 days later than the latter. The SPORT perennial darnel (SS Vetrov, in tests VV-VT-7) is viable and is to be used primarily for lawns; its seeds are tiny. In case of need of importing seeds for lawn purposes, there was recommended FYLKING meadow-grass (Sweden)--a strain with narrow leaves forming a fine, dense growth (and due to its fast regeneration also usable as pasture

growth). Authorization for eventual imports was also given to the BARA grass strain (Poland) because of its high yield, ground cover and regeneration.

#### Potatoes

This year's success of our cultivators is culminated by authorization of new strains of potatoes as well. They involve, first of all, the HR-15 strain (SS Hradek near Pacov) under the designation SVATAVA. It is semiearly, 6 days earlier than RADKA, relatively resistant against virulence, mechanical damage, with good dynamics of growth, storage and consumption quality class I. The HR-17 strain (SS Hradek) dubbed OREB is an industrial strain, with red peel, earlier by 1 week than BLANIK, with comparable dynamics of growth and yields and a higher starch content. The third strain, REMA (SS Velka Lomnica, in tests "VL 10"), partly indicates in its name that it is resistant against nematode parasites, is semiearly, with very good yields, of table quality class II. Its starch content is higher and can be used for high-grade products. This strain shows a high degree of intolerance toward cirrose, with a relatively good field endurance. In case of infection, this oversensitivity prevents the germination of bulbs and growth of plants infested by cirrose. It is destined primarily for lighter soils with improved structure found in Slovakia.

#### Sugar Beet and Fodder Beet

In the area of root crops for seed, successful cultivation of sugar beet from the SS Bucany (Imona, Remona) continues. The POLYNA strain (in tests BU-P-130) is genetically a monogerm, polyploid plant which in its yield of succulent bulbs and white sugar matches or exceeds that of the DOBROVICKA A strain. It has all the prerequisites for fast propagation of seed. Also the emerged cultivation of monogerm strains of forage beet (BARA) is promisingly continuing--the GAIA strain (SS Kostelec near Krizek). Already its test designation JUZ indicated its type--monogerm Unicum, yellow--namely a yellow root with 95 percent monogerm seeds, compatible succulent yield and contents of dry matter lower by 1 percent.

#### Eliminated Strains

At the same time, some older strains that are no longer compatible today were deleted from the State Strain Register, namely: GRANA winter wheat (Poland), FAMOS spring wheat (FRG), KIRUNA winter barley (FRG), RAPID spring barley, TO 550-S corn, TO 560 BAMA kidney bean, BRINK winter rape plant (Sweden), MERIT soybeans (Canada), IsZ 10 (Hungary), OPAVA winter rape plant, BINTJE potatoes (Holland).

A deadline for accelerated recall from circulation, propagation and issue of seed was stipulated for these restrained strains. On the other hand, in the case of newly authorized strains the meeting of the basic requirement was verified in each case, i.e., minimum extent of cultivation acreage in the year of authorization. That translates into, e.g., at least 1,000 hectares [ha] for cereals, 100 ha for potatoes, etc. Thus, there are the best prerequisites for all the new strains to reach routine cultivation areas as early as next year, but in 1985 at the latest.

LESS 'ROMANTICISM' IN INDICATORS URGED BY ECONOMIST

Prague HOSPODARSKE NOVINY in Czech 29 Apr 83 pp 4-5

[Article by Doc Eng Milan Matejka, CSc, Advanced School of Economics, Prague:  
"Less Romanticism in Indicators"]

[Text] Doc Vladimir Kyzlink (article: "We Know the Objective--We are Looking for Criteria," HOSPODARSKE NOVINY No 11/1983) recommends profit as the key indicator for assessing economic results of khozraschet [cost accounting system] organizations. Eng Ladislav Rusmich (contribution: "Lack of Systemic Approach," HOSPODARSKE NOVINY No 14/1983) asks why profit and not value added. Eng Vaclav Filip (article: "Questionmarks Around Profit," HOSPODARSKE NOVINY No 12/1983) sometimes considers net production to be more suitable than profit. If I add to it my query: "If profit, what about the other indicators?" I shall delineate the key topic of this article.

The contents and linkage of indicators should be--as says the basic postulate of economic statistics--as adequate as possible to the contents and linkages of the economic categories which we characterize by numerical indicators. Subjectivism in devising a system of indicators which stands for divergencies between the function of value indicators in economic practice and the objective function of the corresponding categories in the system of commodity/fiscal relations leads to divergencies between economic theory and economic practice, with negative results for practice. If we do not respect in practice, e.g., the objective role of profit in commodity production--through replacing profit for some pragmatic reason (e.g., because of problem prices) by value added to characterize economic results--i.e., if we substitute in a certain function one value category for another, there occurs deformation of the entire system of commodity/fiscal relations. One such faulty step can produce an infinite chain of problems.

Knowledge of and respect for the quantitative properties of economic indicators are also of great importance when they are being "introduced into a certain function." Even elementary, primary indicators must be perceived as statistical characteristics of economic symbols of sets of economic objects whose quantitative properties can vary in dependence on the types of characteristics, types of sets and types of symbols. For example, spatial nonadditivity of

some absolute indicators, e.g., the indicator of total production costs is significant. In its light, an unambiguous orientation of the effect of partial components on reducing the costs of the monetary unit of production appears problematic; namely, it does not say anywhere that it will also make production cheaper for us from the viewpoint of society as a whole.

Numerical illustration of the problem: Let us consider production of automobiles in two automobile plants in two periods. In the basic period, the plants did not cooperate, in the subsequent period they cooperated so that automobile plant A specialized in production of engines, automobile plant B in production of bodies. In both periods, both plants completed the same number of automobiles.

Situation Prior to Cooperation:

<u>Plant</u>	<u>Value of cars produced</u>	<u>Costs</u>	<u>Profit</u>	<u>Costs per Kcs 1.00 of production</u>
A	2000	1500	500	0.75
B	2000	1500	500	0.75

Situation After Cooperation:

<u>Plant</u>	<u>Value of completed production</u>	<u>Costs of completed production</u>	<u>Profit</u>	<u>Costs per Kcs 1.00 of production</u>
A	2000 + 500*	1950	550	0.79
B	2000 + 500*	1950	550	0.79

\* From the value of completed production in either plant, 2000 represents the value of sold automobiles, 500 the value of engines or bodies sold to the other automobile plant.

Cooperation in the listed example appears desirable from the societal viewpoint, as through identical final production we achieve a higher profit, i.e., we accomplish it at a lower cost (total costs of final production are 2900). However, if we evaluate the plants according to how cost-intensive their production is, assessment of the development will be negative, because cost-intensiveness in each plant increased substantially (from 0.75 to 0.79).

Conclusion? Short-circuited thinking, imagining that by lowering the cost-intensiveness of production in partial components we provide for making production cheaper from the viewpoint of society as a whole can lead to considerable losses for society. Enterprises will resist cooperation that is of advantage to society, simply because the indicator of the cost-intensiveness of production, on the basis of which they are evaluated, would show unfavorable development.

Profit Versus Net Production

The discussion already brought up the question of whether enterprises should be primarily oriented toward profit or toward net production or, eventually, value

added. Using the contents of indicators as my starting point, I unequivocally side with Doc Vladimir Kyzlink's position, who prefers profit. The reason is simple.

Profit constitutes the difference between the value of achieved production (output of the production process) and its costs. Costs characterize in terms of value everything that we consumed during production: consumption of production assets as well as of manpower. Thus, profit is an effect of the production process.

On the other hand, net production also includes labor costs of production. We use them to express what workers consumed (in the form of material goods--food, clothing...) in the interest of replenishment of their work capacity. This component of the total value of achieved production cannot be considered to be an effect of the production process--an excess value of what we produced above what we consumed.

If we orientate enterprises toward net production, they maximize the sum of  $v + m$  where in Marx' symbolism  $v$  = labor costs and  $m$  = profit, even the job of a worker who produced but a fraction of the value of what he consumed in production appears as effective, because in every such case there occurs an increase (with a decrease in profit) in the sum of  $v + m$ . Let me illustrate it by an example:

Variant	Value of Production $c + v + m$	Materials $c$	Labor $v$	Profit $m$	Net
					production $v + m$
A	100	50	30	20	50
B	110	55	40	15	55

While variant B appears more favorable in comparison with variant A in regard to net production, at what cost is this so? Here we turn out net production worth an additional 5 monetary units (e.g., Kcs 5 million), but we had to pay out an additional 10 units to workers in wages. The surplus produced in variant B does not even allow us to meet replenishment of those workers who had to be employed in excess in comparison with variant A. Let us notice in this context how an unsuitable selection of a key indicator of the economic result can lead to overemployment, to an uneconomical employment of "extra" workers.

If primary orientation toward net production is unacceptable just for this reason, even more unacceptable is primary orientation toward value added. The latter can be maximized at the expense of the true effect as well as by maximizing that part of material costs included into value added (primarily depreciation).

I see the reason for giving preference to net production (or value added) again in short-circuited thinking. The deliberation can be as follows: If at the national economy level we are interested primarily in national income, i.e., the sum of  $v + m$ , we maximize this sum even at the enterprise level.

I hope that the example itself was convincing enough that such a deduction is in error. For formally logical and economic reasons it does not apply in general (and not only for the case under examination) that maximum value of a certain indicator in a certain unit (e.g., a certain country) can be achieved by orienting partial components (e.g., enterprises) toward maximum values of the same indicator.

In our country there still persists an a priori distrust of profit and the rate of profit as a consequence of the negative phenomena which the one-sided orientation toward these indicators leads to under capitalistic production conditions. The problems of capitalism are not caused by wrong indicators (if it were so, they would undoubtedly replace profit by other indicators), but have their root in private ownership of the means of production and their resultant chaotic nature.

If we subject profit and the rate of profit to thorough analysis in the context of other indicators of input and output of the production process, we are actually surprised by the geniality of the synthesis of information regarding utilization of all components of production resources from all aspects in these indicators.

If we insist that in the socialist economy we make planned use of categories of commodity production, then we should fully respect the function of individual categories in the entire system of commodity/fiscal relations. In the opposite case, there occurs deformation of systems and partial negation of positive aspects that derive from public ownership of production means.

#### What About Other Indicators?

If we adopt the thesis that the indicator of economic results of an enterprise should be (as a consequence of commodity production), even under socialism, profit (and, accordingly, the indicator of the relative effect the return on capital, alias profit rate) we are faced with the question of what role will be played by other indicators.

One could object, e.g.,: Is not the current practice, under which enterprises are evaluated by several indicators, better? Why could we not stick with the principle of multiaspect evaluation, i.e., evaluate enterprises comprehensively according to how they meet not only the profit plan, but also value added, cost-intensiveness of production, time for turnover of supplies and other prescribed indicators? That is how we can avoid a one-sided approach.

Even such a view of the problem is superficial at best. The basic counterargument?

The more indicators we prescribe for enterprises as obligatory, the more we narrow down their room for action, the more formidable barriers we are erecting for them. Prescribing of any additional indicator, as if "to make sure," also means erecting another barrier. As long as the relevant regulation is not absolutely necessary, we are artificially creating obstacles to increasing the efficiency of production.

The problem can be illustrated also by our two numerical examples.

Let us assume that the only obligatory indicator we prescribe for enterprises is profit. Then in the first of the numerical examples the enterprises (automobile plants) will prefer cooperation, in the second of the numerical examples they would choose variant A. Another choice could occur in the second example, if in addition to profit we prescribe for enterprises the net production indicator as obligatory.

If, e.g., the plan for the enterprise calls for profit in an amount of 14 units and net production of 52 units the enterprise will give preference to variant B, because by its selection it can meet the plan in both indicators. While variant A is more favorable from the viewpoint of profit, it makes it impossible to meet the plan of net production. The reason for the economically demonstrable wrong decision is in the planning of net production itself (as an obligatory indicator).

Quite similarly, it can happen in the first example that the enterprises will decide against cooperation, just because we are planning for them, "to make sure," also an indicator of the cost-effectiveness of production, i.e., the share of costs in the value of production.

If we generalize the problem and think it through to its consequences, then the state appearing as optimal will be when from value indicators we will plan only synthetic indicators of effect and efficiency. Obligatory planning of various partial indicators creates artificial barriers to improving efficiency.

However, I point out at this very point that this is viewing the problem from only a single angle; the principle can be implemented only under certain prerequisites that are not met in the current practice (the problem is constituted primarily by prices).

Refusal of unjustified limits does not mean refusal of limits in general. Value criteria are not almighty and the more they should not be almighty under socialism. Objective barriers are erected (or at least should be erected) by a material plan of production, eventually even of consumption, of certain products (primarily those critical from the societal viewpoint) in natural units, norms for the living environment and other socioeconomic norms.

Where the value indicators themselves are concerned, it must be seen that planning of merely synthetic indicators does in no way eliminate the need for monitoring a whole scale of partial indicators. Only through them can we obtain information about the causes for the attained values of composite indicators must be evaluated in their mutual linkages.

I consider it necessary to emphasize: Using profit as a yardstick to evaluate the results achieved by an enterprise does not mean that we should stop monitoring gross production, net production, value added, etc. Each of these indicators has its place in the system of indicators, just as every corresponding category has its place in the system of value categories. The point is that we must respect the objective function and relations of these categories in the system of indicators.

I deem it, e.g., extremely incorrect that while doing away with gross production we replaced it by value added, not only in the role of a key indicator of the economic results achieved by enterprises, but in various relative indicators. If we evaluate, e.g., the cost-efficiency of production not according to the ratio between costs (and their components) and gross production, but according to the relation between costs and value added, we have completely lost our way, because we actually deny the commensurability of cost components. Kcs 1.00 in labor costs ceases to remain in this evaluation equivalent to Kcs 1.00 in cost of materials (production more demanding on wages appears more viable), a fact that cannot be defended, among other reasons, because of the relativity of terms: What from the viewpoint of narrower space and a shorter interval of time appears as costs of material, can from the viewpoint of wider space and a longer interval of time appear as labor costs.

#### Wider Context

Problems attendant to value indicators were presented from the viewpoint of their contents, linkages and quantitative properties, i.e., from the position of an economic statistician. In conclusion, I shall attempt to take briefly a position on some of the other basic problems that were brought up in the discussion and which cannot be passed over even in a discussion about indicators.

#### Plan

According to economic theory, the basic tool for management of the socialist economy is a plan. That brings up questions: Are we not denying the role of the plan if we orientate enterprises primarily toward profit? How are we to understand the role of the plan? Is it possible to limit ourselves only to planning profit?

I have already expressed in part my position to these questions.

The limits within which enterprises can operate should be determined by a material plan. It is the basic advantage of the socialist economy that by means of a central plan it can specify for partial units the amount of products needed by society from the viewpoint of a wider horizon and from the viewpoint of wider economic and political interrelations. The plan should oppose spontaneous orientation toward what appears to enterprises momentarily of advantage from the viewpoint of profit. Meeting the tasks of the material plan should receive unequivocal priority, if for no other reason than because a failure to meet the tasks in one enterprise causes (due to interlinkage of the plan) a chain reaction.

The point is that we plan only those products whose need we can, under the given conditions (the existing level of development of the theory of national economy planning, computer technology and qualification of cadres in planning), determine from the center better than production enterprises themselves. Briefly put: Let us plan what we can handle for the time being, and develop maximum efforts in theory and in practice toward becoming able to handle more and more.

This recommendation can also be adopted in principle for planning of value indicators. However, in the case of value indicators the situation is substantially more complex. As we have seen in our examples, determination of the values of partial indicators can mean uneconomical barriers--as long as the planned values of partial indicators are not optimum values from the viewpoint of synthesizing indicators of results and efficiency. And determination of the optimum indicators for individual enterprises from the center (or even just by directly superior units) is today, and will obviously remain for a long time, impossible.

Inasmuch as we are today planning in such a manner as to require gradual improvement in the values of partial indicators (the so-called indexing method), we do force enterprises to implement certain improvements, but we are far from leading them toward a socially optimal behavior.

#### Prices

The most weighty argument used against evaluation of enterprises according to profit is usually the unsatisfactory situation in prices. From the theoretical viewpoint, evaluation according to profit also poses problems as a result of the principle used in price setting.

As regards the problem of unrealistic prices resulting from the inflexibility of our price policy, a split between what we do monitor and what we should monitor, it is hard to look for a cure in indicators.

A distorted picture of reality is offered not only by profit, but also by other value indicators, even though it may be true that profit is most sensitive to prices. However, we cannot do away with the consequences of distorted prices by deforming the system of indicators; we will probably only further distort the faulty reflection of reality.

The problem of price-setting per se is of great importance. If the price is determined on the basis of the costs of a production enterprise, then assessment of the efficiency of management according to profit is tautological. We determine the price ourselves so as to achieve a commensurate profit and then we interpret profit as the difference between price and costs. In practice, everything appears to be equally effective--particularly in the case of monopoly producers.

If--as is envisioned--the basis for setting our prices in the future will be external prices (be it prices on the world market or within CEMA), then production of various products will be differently effective for a given enterprise, because internal conditions for manufacture of individual products generally differ from external conditions in direction and in degree.

In such a case, a one-sided orientation of enterprises toward favorable products can be resisted in essentially three ways:

--by the mentioned priority of the material plan, i.e., by devising measures which would cause the enterprise to devote primary interest to meeting the material plan;

--by linking producers with the market, thus eliminating orientation to products offering a price advantage with which the market (be it domestic or foreign) is saturated;

--by evaluation of enterprises through respecting the assortment of products prescribed for them by the plan; statistics has today at its disposal methods enabling it to quantify the effects of changes in the assortment of products on changes in summary values of indicators.

Setting of internal prices "from the outside"--by commensurate modification of external prices--is certainly a very complicated problem, both theoretically and practically. However, I deem the principle itself to be viable, because only in such a way will we acquire an objective basis for measuring results and efficiency.

#### Remuneration

Remuneration is a problem justifiably discussed in connection with a change in criteria for economic results. The principle of remuneration (linkage of wages to composite value indicators) forms a sort of a factual hierarchy of indicators which can differ from its proclaimed version. That is why Doc Vladimir Kyzlink takes under consideration linkage between wages and profit.

I am personally of the opinion that linkage of the basic component of average wages with any comprehensive value indicator is ill-advised from the viewpoint of both economic theory and practice. Wages must be viewed as a necessary product facilitating replenishment of consumed manpower. Workers and other personnel must be paid wages commensurate to their qualifications, the time spent at work, intensity of labor--all of which become reflected in the specific results of their labor (and the productivity of labor determined by those results), and not in relation to some comprehensive value indicator; to the latter should be tied only the premium component of remuneration, the amount of which should be differentiated for individual groups of personnel according to how they influence the overall economic results.

In an opposite case, we would pay to the same workers for the same work in different enterprises wages that often would differ considerably, thus interfering with the socialist principle of remuneration according to performance and we would be hard put to cope with spontaneous fluctuations of workers from one type of enterprise to another.

Thus, I see the path toward objectivization of wages not in appointing some objective comprehensive indicator to which wages should be commensurate, but in standardizing and measuring the results of specific labor which, of course, is a much more demanding path to tread.

8204  
CSO: 2400/285

ANNUAL ECONOMIC ANALYSIS DISCUSSED

Prague HOSPODARSKE NOVINY in Czech 22 Apr 83 p 2

Article by Frantisek Pavelka, official of the CPCZ Central Committee:  
"Annual Analyses"

Text Accounting for economic achievements of 1982 is now at its peak; our economy operated under essentially more difficult domestic and external conditions than the state plan had projected and had to cope with more limited resources of crude oil and other imported raw materials and materials. It overcame the consequences of a poor harvest in 1981 and the planned deceleration of the dynamism in economic development set the groundwork for the adaptation of our economy to a new, more complex situation and for the preservation of balance in its main areas. It was a year when in principle basic directions of the state plan had been met, i.e., the standard of life and social welfare achieved by our citizens has been maintained and a balance in foreign economic relations achieved.

The focus and tasks of the analyses of economic achievements are, on the whole, clearly defined. Their objective is not, and cannot be, only to uphold a more advantageous way for an organization to sum up its economic results and consequently, the method of paying and determining the amount of rewards paid to the managing staff and of profit-sharing.

The main purpose of annual analyses is primarily to review objectively the fulfillment of the tasks stipulated in the plan and the positive and negative tendencies in the development of economic programs of an organization, with a focus on the development of the qualitative indicators and on the evaluation of the level achieved in supplying the needs of our national economy with products and services, and of the technical economic standards, the line of goods and so on. Next, the assessment deals with the fulfillment of the decisions stemming from previous analyses and in particular, with the effect of the achieved results and measures adopted for the future conditions of economic activity and the creation of preconditions for a further efficient development of the organization.

To narrow down the annual analyses to a struggle for recognition or nonrecognition, and for toleration or nontoleration of the extent to which the eight mandatory indicators decisive for the assessment of an organization

have been fulfilled would mean an admission of misunderstanding the sense and purpose of annual analyses, which would cause their extensive deterioration and fracture their original intent.

It is necessary to put major stress on the assessment of the qualitative economic aspects, especially those which in the past determined national economic development in 1982 and which will determine future development in the coming years. Even from such broad perspectives there are not many reasons for satisfaction.

The structure of the unfulfilled indicators is proof that the greatest number of unfulfilled indicators, decisive for the accounting of economic results, pertained to exports (34 percent), to tasks in capital investment (21 percent) and in profitmaking (12 percent), in other words, to tasks linked to the achievement of a better economic balance, rates of economic growth and future supplies of material and financial resources for our national economy. Half of them involved tasks of efficiency.

This problem is even more relevant because those results are similar to the results for 1981, the only difference being in their order. In the first place are problems with exports and in the second, tasks in capital investment. The nonfulfillment of tasks in profitmaking slightly increased. These facts are indirect testimony that we still have not advanced with desirable efficiency in the solution of certain vital long-lasting problems.

Despite the basically harsher economic conditions for the fulfillment of the tasks planned for 1982, it appears that the results of annual analyses will be again somewhat better than in the previous year. Special or control programs are expected to be introduced in about 2 to 3 percent of the VHJ [economic production units]. In 1981 they were introduced in approximately 4 percent and in 1980 in about 5 percent of the VHJ. On the other hand, the situation in organizations of foreign trade deteriorated, which is proof of the difficulties and problems encountered in the past year.

What is the assessment of those results on the whole? First, they may be given a positive rating. They indicate that our organizations and entire teams of workers have stepped up their effort to deal with tasks which are regarded as the most important in terms of annual analyses and in terms of total needs of our economic development. Furthermore, the results reflect a number of positive trends in our national economy over the past period.

However, on the other hand, it is necessary to take a critical look at the results of annual analyses. Some contradictions exist, for example, between the results of production and the achievements of organizations of foreign trade. While annual analyses give most VHJ the top grade, the same thing cannot be said at all about the organizations of foreign trade, which points out that our domestic economy is obviously still not adequately interrelated with current achievements in foreign countries.

Moreover, certain contradictions appear here even between the results of the fulfillment of the indicators stipulated for the assessment of the fulfillment

of the state plan as a whole and the results of the fulfillment of the eight decisive indicators applied in final accounting for annual results of the management. Evidently, there is not sufficient linkage between the indicators of the state plan and the indicators applied in annual analyses, on the one hand, and, on the other, between the indicators of the plan and the mechanisms of economic incentives (especially personal incentives).

This is a fact which the pertinent superior authorities should promptly study and take into consideration when selecting decisive indicators of the accounting of economic results for 1983 and for the following years of the 5-year plan.

The way the allowances are applied may play its part here. The instructions for annual analyses are unambiguous. Only nonfulfillment caused by external factors which the organization was unable to prevent, or nonfulfillment that is socially advantageous, or economic (objective) fulfillment of the task, or inessential nonfulfillment may be tolerated. Claims by the assessed organization that the planned tasks had been unrealistically projected cannot be a reason to make allowances for the indicator. On the other hand, within the framework of objective assessments, it may be regarded as a step in the right direction to tolerate the nonfulfillment of numerous tasks in capital investment and technical development as a result of desirable cost-efficiency in the objective fulfillment of a given task. This is a positive tendency stemming from growing concerns about economic efficiency in the fulfillment of assigned tasks.

Summing up the annual economic results is not only a technical economic task or a concern for experts but an event of a greater political impact, when all the basic aspects of the management in an enterprise or VHJ should be discussed with the active participation of the representatives of the party and of public agencies and organizations. It offers a proper occasion for focusing the discussion on a review of the fulfillment of actual social tasks, such as fuel- and energy-conservation programs (including the conclusions of public reviews of their management), programs to upgrade the quality of products as well as the issues of mobilization of the movement of socialist labor teams, socialist competition, worker participation in management, improving the tasks of control, counterplanning, etc. Party economic aktivs or consultations on production should acquaint practically all workers with the results of annual analyses, especially in terms of the resultant programs.

Annual analyses mark in their way a period after the economic results of the previous year. However, it is up to us to turn them from a summary into an introduction focusing attention mainly on the present and on the future, in other words, to turn them into an act which, according to the stipulations of the 16th CPCZ Congress, will help us avoid the errors and shortcomings of the past period, continue the positive achievements in the operation of the enterprise and the VHJ and thus, guarantee that the outlook for future development will be met.

9004  
CSO: 2400/272

METHODS CITED TO RAISE PRODUCTIVITY OF BEZIRK-MANAGED COMBINES

East Berlin NEUES DEUTSCHLAND in German 11 May 83 p 3

[Article by Siegfried Lorenz, member, SED Central Committee; first secretary, Karl-Marx-Stadt Bezirk Management: "Experiences of Karl-Marx-Stadt Bezirk Party Organization: How Bezirk-Managed Combines Work With Greater Efficiency--Additional Consumer Goods Valued at Half a Billion Marks Will Be Produced in 1983--Party Collectives' Ideological Activity Promotes Militant Spirit and Readiness to Perform--Make Use of Scientific-Technical Progress and Conserve What is Available"]

[Text] The workers of our bezirk have approached the tasks to be accomplished during the 1983 Karl-Marx Year with great commitment. They are fighting in the socialist competition for high labor achievements under the slogan "Marx lives through us and our deeds."

Erich Honecker's speech to the kreis first secretaries was analyzed in detail in the membership meetings of the party basic organizations and in work collectives. Numerous pledges testify to the readiness to make an important contribution to the all-around strengthening of the GDR and the safeguarding of peace. These pledges include the workers of the VEB Numerik "Karl Marx," the miners of the tin department of the "Albert Funk" Mining and Metallurgical Combine in Freiberg, or the plant collective VEB United Cotton Spinning and Textile Mill in Floeha. Their goal is to ensure a higher growth that exceeds the plan and competition target. Labor productivity is to be increased more rapidly than the addition of capital; an increasing share of the growth of the national income is to be attained through a lowering of consumption in production. All these pledges are in response to the fighting goal approved by the bezirk management to surpass the planned labor productivity by 1.5 percent and thus to make products in demand available in excess of the plan. Thus for better consumer supply, half a billion marks worth of consumer goods in excess of the plan are being produced, whereby more than 50 percent of the additional products are supposed to be new developments. It is not hard to understand the high degree of creative performance, new ideas and initiative on the part of the workers is necessary to achieve this goal.

Past Achievements as a Starting Position

The bezirk management directs its special attention toward achieving an increasingly higher priority to the production of consumer goods, for the latter

hold a key position in the further implementation of the economic and social policy.

Past achievements provide a good starting position for Karl-Marx-Stadt Bezirk to meet its great responsibility towards the economy in 1983. The results of the first 4 months of 1983 were good. Up to the end of April, 250 million marks worth of industrial goods production in excess of plan could be provided. In doing so, the planned labor productivity, the net production, and the planned savings of costs for materials were considerably outdone.

Jointly with 15 centrally managed combines located in our bezirk, 9 bezirk-managed combines are to a high degree coresponsible for the consumer goods supply of the republic, for considerable exports, and for important economic subcontractor deliveries.

The best experiences of party work in the bezirk-managed combines are being especially carefully noted and made generally known by the bezirk management and the kreis managements. A total of 168 enterprises are involved with a labor force ranging from 850 to 12 workers. This is the specific feature of these combines and new demands on political work arise from it.

The product assortment consists of commodity groups that are decisive for the development of the material and cultural needs of the citizens. This includes, among other things, a broad array of furnishings to improve home decor, ease the burden of house work, for leisure time and vacation as well as for do-it-yourself work and for people working their small garden plots. Also products of the Erzgebirge folkcraft and thousand little items for everyday life are being produced to a considerable extent in enterprises of the bezirk-managed industry. Numerous subcontractor supplies originate here. Frequently their value is only a few marks but they are indispensable for the functioning of million mark objects, in the end products of shipbuilding or of electrical engineering and electronics.

#### Political Insights Arouse Initiatives

Since combines have been formed in the bezirk-managed industry it has been a priority project of the bezirk party organization especially to promote their development into efficient economic units. And as has been demonstrated at the Leipzig Central Committee seminar, it also applies to some of our new combines that they have made good progress as regards higher economic efficiency.

For us it has been useful that the help and support of the bezirk management and of the kreis managements have been concentrated on getting to know the best work and management experiences in each case, especially in the successful application of science and technology and in making their application mandatory.

The political-ideological work of the basic organizations and of the communists contributes to shaping more and more the workers' work discipline and their attitude toward socialist property in the interest of the further advance of worker awareness. It is a priority matter for the managements and work collectives to justify politically the necessity for ambitious economic tasks as well as to make evident the greater possibilities for their solution. Thus we are following our principle of effective ideological work that initiatives must

be aroused primarily by insights and that the fighting spirit and readiness to perform grow in this manner.

Such a working style is being practiced, for example, by the Schwarzenberg Kreis Management with the aim of raising the fighting strength of the basic organization in the parent enterprise of the Home and Kitchen Implement Combine. For the comrades in the party collectives it is important that they become acquainted in advance with the demands with which the combine or its individual plants have to cope. They can prepare themselves for these demands better, in time, and jointly with all workers. The kreis management also makes good use of its overall view of the plants in its area of responsibility to give full effect to the advantages resulting from the socialist production conditions for regional rationalization. Moreover, the Schwarzenberg Kreis Management has seen to it that the centrally managed Household Implements Combine that has been assigned as sponsor meets its toward the new combine, in the beginning, by support with cadres. This party work aimed at the solution of key problems has been very fruitful. Thus an increasing number of workers has adopted the idea that "work time is performance time."

#### Thirty-eight Agreements With Research

Progress in political work has been made not only in the Home and Kitchen Implement Combine. The total number of communists working here has increased by nearly one-third during the relatively short time of the existence of this bezirk-managed combine. Stable managements were established in all basic organizations.

In the political leadership of the economic processes, acceleration of the application of new scientific, technological, and organizational solutions in our economy is now in the center of attention. After the young combines had first created the correct starting position for themselves, the results of scientific-technical progress are now being economically utilized with greater consistency. Of course, here, too, the organized support by centrally managed combines is indispensable. But the new combines are increasingly determining their development from their own resources.

It is a significant success that in 1982 nearly 200 more workers in bezirk-managed combines worked in the science and technology field than in 1981. The scientific-technical potential will continue to be developed during 1983.

At the same time it is necessary to collaborate even better with research institutes of other combines and with universities and technical colleges. Good prerequisites are offered by the 38 agreements concluded in the meantime, in which thus far the largest number of scientific-technical tasks has been formulated.

As a result of the cooperation of science and production in the bezirk-managed industry, a 9.9 million mark growth could be achieved during 1982. All combines have increased their efforts to attain a higher rate in their own production of rationalization devices.

The Karl-Marx-Stadt Polytechnical and Precision Instruments Combine demonstrates what can be achieved if one's own scientific-technical potential is strengthened and directed toward the key problems. We are making generally known the experiences that were gathered here through general rationalization for the benefit of higher efficiency. It serves as an example how the manpower for new projects purposefully was recruited from the ranks of the combine's labor force through the use of microelectronics and industrial robots.

The growing demand for teaching and study materials; precision drawing instruments, barometers, manometers, and other measuring devices had already reached the absolute limits of capacity above all the parent enterprise. An appropriate analysis demonstrated that moreover the traditional drawing instrument production required too much labor input and that the technology used for the production demanded too much space.

#### New Technology Achieved Solution

The party organization did not accept this situation as unalterable and looked for solutions with assistance from the management of the Karl-Marx-Stadt Bookkeeping Machine Works. Within a short time success was achieved in developing a significantly better technology by using robot technology. It requires only half of the former production area. Labor productivity grew by nearly one quarter. Production of drawing instruments increased 16 percent.

Cooperation of the combine in the regional rationalization association proved to be beneficial. This regional involvement also made it possible to find out about results of the joint science-production industrial robots that had proved their worth in the bezirk.

Important reserves--our experience testifies to that, too--can be uncovered when all possibilities created with the formation of the combine are fully exploited. The Erzgebirge Folkcraft Combine in Olbernhau follows a good idea by organizing an important growth in efficiency through appropriate concentration of manpower and funds in the enterprises. To provide full effect for the scientific production experiences, capabilities, and skills of the collectives from all 36 combine plants, the production was concentrated in the place where the best prerequisites were present for it. Thus in a lathe part center for preshaped parts, new technology is being used more effectively and the quantity of end products is increased for the final producer. The increase in performance was also stimulated by the fact that, following a thorough discussion in the participating collectives, the concentration and specialization process was linked with a noticeable improvement of working and living conditions. Thus it was possible to accept an additional important export order and to complete it within a short time.

#### To Be Stable Partners of the Economy

In addition, the bezirk management supports and promotes all initiatives directed toward using secondary raw materials from the economy as raw material source in the bezirk-managed combines. Especially enterprises producing many of the thousand little things for everyday life can manufacture many useful items, for example from remnants.

For example, a center for processing of wood shavings works in that direction. In 1982 it was able to make available material through over 100 contractual arrangements. This enabled the enterprises concerned to do without state balance sheet shares amounting to 59,000 marks.

In the Plastics and Chemistry Combine in Wolkenstein, thermoplastic wastes are processed into granulates from which new consumer goods are produced. Jointly with the regional organs, solutions are now being sought how plastic residue and wastes can be obtained from other enterprises and households with the goal of increasing production from them tenfold.

In his speech to the kreis first secretaries, Erich Honecker had emphasized that the conditions under which we are continuing the course of the main task in 1983 demand even bigger steps to intensify production. The bezirk-managed combines are developing into stable partners of our economy, by making science and technology into main allies, by developing new effects from the formation of combines and definitely make better use of the available resources. The communists of Karl-Marx-Stadt Bezirk are fighting so that in this respect, too, the many good individual results and examples will be utilized even more widely.

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HUNGARY

INDUSTRY MINISTER SPEAKS ON MODERN MANAGEMENT

Budapest IPARGAZDASAG in Hungarian Apr 83 pp 1-3

[Article by Lajos Mehes, Minister of Industry: "Guidance to the Industry--Enterprise Management in a Modern Way"]

[Text] It has become ever more a routine that the Minister of Industry addresses the managers of industrial enterprises in the beginning of the year. This was the case on 5 January at the national meeting of enterprise managers.

Lajos Mehes' speech set out from an evaluation of the role of industry in national economy. Further on the minister discussed such socio-political problems as the situation and treatment of the socialist mammoth enterprises, the smaller and private undertakings and the enterprises, which are working with deficit. He analyzed the organizational tasks of the economy in 1983, and called attention to the most efficient ways to increase industrial output, namely the increase of competitiveness and efficiency. He spoke about the tasks involved in a better utilization of labor and in the conclusion of his address he emphasized the importance of cooperation between enterprises, the state, the Party and social organizations and their leaders, and pointed to the role of democratic forums in the enterprises.

A complete text of the minister's exposition appeared in the No. 1, 1983 issue of IPARI SZEMLE [Industrial Review] the bulletin of the Ministry of Industry. In the following we are going to publish a few edited excerpts from the speech, trying to draw our readers' attention to the key issues, i.e. the new elements, the fresh initiatives and the innovations.

The Key Tasks: Renewal, Undertaking Spirit, Rationalization

We already started the new year but in the economy life runs its course normally, the economic processes ignore the fact that the date has changed on the calendar.

This is clearly exemplified by a comparison of the pivotal principles adopted by last year's managerial meeting with what we have to say now at the threshold of 1983.

I cite some of last year's principles:

- acceleration of renewal
- development of the undertaking spirit
- intelligent management of the scarce resources
- the primacy of the requirement of balance
- emphasis on the growth of exports and economy in imports
- more rational management of materials and energy
- devotion to the workers' interests in all areas of economic and social life.

All these are still topical and determining factors, there is no change in this respect. Therefore we still think that the most important thing to do is to tread on the road on which we had started out.

Significant structural changes, even on macroeconomic level, are expected as results of the current industrial policy. At present certain developmental processes are taking place part of which will generate, if not immediately then in the short run, certain productive changes which are fully in line with our economic policy, provided that the enterprises will be able to make the best of them.

In my view under the present circumstances those enterprises which are using the period of recession for an improvement of their internal organization and have brought their products up-to-date with the help of their technical development capacity, have chosen the best means to build their future. We have to look forward to the economic recovery alert and with new and competitive products which meet the requirements of the world market.

#### Our Tasks in 1983

The 1983 national economic plan sets forth difficult tasks for us. The trends devised by the Sixth Five Year Plan are still in force, although insofar as the dimensions are concerned the medium-length plan requires certain corrections in some of its items. The consolidation of the external balance of our national economy is more than ever our prime goal, it remains a first priority.

The paramount tasks of the industry in 1983 are:

- growth of the export in convertible currencies
- increase of the share of domestic products in public consumption and decrease of the amount of materials imported for our industrial production against convertible currencies.
- compliance with our contractual CEMA commitments.

The conditions underlying the implementation of these tasks are not easy, not only because we cannot count upon an improvement in the situation of our external markets and restrictions on our imports will make structural changes

imperative, but also because our investment resources and the available manpower are also limited.

#### Competitiveness, Efficiency, Innovation.

Our industry can only accomplish these tasks if it will see to it that its competitiveness be increased, its technology make progress and its manpower be properly utilized. We think that only through these ways can industrial output be augmented.

An increase in competitiveness hinges on our clear awareness of where our advantage and disadvantage in economy lie. The price and cost factors reflect these synthetically but we need also a more detailed approach. International comparisons may be a help in this.

Today most enterprises, although unfortunately not yet all of them know that progress in comparison with their own earlier output does not define fully their situation and development. The world market applies more rigorous measures to their accomplishment. A recognition of this fact has lead many enterprises to the compilation and analysis of international parallelisms and inspired them measures tending to improve their competitiveness. For example the Fegyver and Gazkeszulek Gyár [Weapon and Gas Appliances Factory] used such comparisons to increase operational safety, to diminish the level of noise and to facilitate the exchange of spare parts. By these measures this factory increased the technical value of its gas convector, improved its productivity and reduced the size of its budget. Comparative analyses at the enterprise level are shedding light on the weak spots of the production process and point out areas where technical development is mandatory. For example the Csepel Vas és Fémüvek [Csepel Iron and Metal Works] found out that among its products the iron tubes are 5-10 per cent, the transformers 30 per cent and the vulcanizing machines 50 per cent heavier than comparable products made by capitalist enterprises. This is waste of material and manpower, not to mention the loss in the marketing value of these products. People in the above mentioned factories are aware of this and they have taken measures to eliminate these backlogs.

In the Sabaria shoe factory one worker produces a yearly average of 1600 pairs of footwear in contrast with the per capita average of 2200 pairs manufactured by workers of Western enterprises.

These are not favorable findings but they show at least that our factory managers know where they are standing now. From such comparative analyses of international statistics intelligent and modern managements can draw important conclusions concerning what they can do and must do in order to make the products of their factories competitive and thereby their work more economic and efficient. This does not mean of course that we have to copy the production methods of other countries, nor that foreign enterprises are doing a better job than ours. But it is not shameful; rather a virtue to realize how an enterprise can be outwitted in the economic competition and how this can be prevented.

A condition of competitiveness is quick and flexible adjustment to market requirements. This is being promoted all over the world by participating in the international division of labor that might purport joint technological development processes beyond the optimal conditions of series production, joint marketing activities, in other words, several combined ways to efficient economic management.

A part of our enterprises takes little advantage of these possibilities. Only 5 per cent of our industrial products are the result of cooperation with capitalist enterprises and merely one percent of socialist cooperation. The number of our joint enterprises with capitalist partners is limited, with socialist partners almost nonexistent. We were happy in last December when we inaugurated a new pharmaceutical company which is a joint enterprise of our Biogal and the Swiss Zyma factories. It would be desirable for us to establish many similar joint enterprises.

There is little doubt that in the great race toward industrial development the future belongs to those countries, industrial sectors and enterprises which greatly appreciate and utilize human creativity, are quickly reacting to new social demands by way of technological progress and concentrate their resources on progressive areas.

Hungarian industrialists have the intellectual acumen that a faster technical progress would require. Tens of thousands of researchers and developers are at work in our enterprises and institutions. Six academicians, almost 100 doctors in sciences, hundreds of doctoral candidates and university graduates are the true reflections of our intellectual standard. These, in addition to those inventors and reformers who are working professionally in our enterprises and institutions on problems of technological development are forming such a creative body that by proper organization, incentives, awards and moral recognition could be mobilized for a qualified implementation of our tasks. This is clearly shown by the results that our researchers and developers have obtained during the last couple of years. Let us look into some of them for illustration:

The most successful product of our pharmaceutical and indeed of our entire chemical industry is Cavinton. This original medicine, which can be sold on all markets, was worked out by a research group of Kobanyai Gyogyszeraraugyar [Pharmaceutical Factory of Kobanya]. In 1982 the sale of Cavinton yielded more than 800 million forint and it thereby became one of our most sought after pharmaceutical products. The utilization of a license for serial castings of the Ozdi Kohaszati Muvek [Metallurgical Works of Ozd] made possible savings in the amount of 50 or 60 million forint and a new esterizing method applied by Egyesult Vegyimuvek [United Chemical Works] 30 million forint per annum. A new method to secure the driveways of mining shafts licensed and applied by the Oroszlanyi Szenbanyak [Coal Mines of Oroszlany] yielded an additional profit of 30 million forint to this enterprise.

Thanks to the work of our industrial research institutes we were able to manufacture import-substituting goods for a value of \$70 million and we

expect that by 1985 we can achieve import-substituting industrial processes for a value of \$110 million. Outstanding results have been obtained in this area by the Muanyagipari Kutato Intezet [Research Institute of the Synthetic Industry], Villamosipari Kutato Intezet [Research Institute of the Electric Industry], Magyar Asvanyolaj es Foldgazkutato Intezet [Hungarian Institute for Mineral Oil and Natural Gas Experiments] and the Gyogyszerkutato Intezet [Institute for Pharmaceutical Research].

The vast camp of our industrial developers and creative technicians produces 450 inventions and 350,000 innovations each year, the estimable profit of which amounts to more than 6 billion forint and the value of their not directly appreciable economic impact is probably the multiple of this amount.

The activity of inventors and innovators that constitutes the intellectual basis of our technological development grew significantly during 1982. This is reflected in the growing number of innovations presented and studies accepted for practical application and in their economic impact. In the organization and direction of this move toward innovations a regular and close cooperation developed between the pertinent trade unions and the government. We trust that this hopefully expanding movement will contribute to the solution of our problems and to the attainment of our goals by thus far unprecedented results.

We definitely have to surpass our present progress in the areas of research, application, adaptation and distribution of the existing foreign and domestic intellectual products (licenses, innovations). We experienced a kind of standstill in this area during the last one or two years. In recognition of the successful application of licenses and as a stimulation for further adaptations we granted, at the end of 1982, to the managers and developers of 19 enterprises a total of 700,000 forint in awards. Among these enterprises the Kecskemeic Mezagazdasagi Gepgyarto Vallalat [Agricultural Machinery Enterprise of Kecskemet] earned 200 million forint in sales revenue during 1982 through the application of licenses. The Nitrokemial Ipartelepek [Nitrochemical Industrial Plants] achieved savings of millions of dollars by means of purchasing patents concerning manufacturing processes, and the Kobanyai Gyogyszerarugyar [Pharmaceutical Factory of Kobanya] could export its products for almost \$4 million.

#### Management, Decisionmaking, Control in the Enterprises

Quite a few new elements appeared in the enterprise managerial system in 1983. Their purpose is to increase the entrepreneurial autonomy and promotion of collective leadership. We must emphasize that these changes did not affect the ownership relations.

Our economic tasks, that have grown more complex, can be best met by manager-type, multi-faceted, flexible leaders who are responsive to new challenges, dare take responsibility and risk, can motivate the workers to become more active and can then rely on them. Thus we would like to appoint henceforth

such personalities to managerial positions. The requirements are indeed demanding.

A novelty is the change in the functions of the board of supervisors. In many enterprises they have taken over the task of control from the ministry. They continue giving advice to the enterprises on strategic planning without any decisionmaking authority. The right of and responsibility for decisions still belong to the enterprise managers, the boards of supervision only advise them on this score.

Another change is the extension of the system of board of directors in the enterprises who can have decisionmaking authority. Members of this board are: the directors of the enterprise, the managers of the individual factory units, the outstanding experts and the representatives of the workers. Wherever such a board of directors, endowed with decisionmaking authority, is functioning, decisions on the enterprise's business strategy are made by this body. Thus those who participate in the implementation of the plans get a greater role in decisionmaking and their interest in and responsibility for doing business will be stronger.

All these innovations will only then become productive when the internal management of the enterprises becomes more modern, when the leaders within the enterprises also get a greater role in decisionmaking and above all when as many people as possible will have an active role in decisionmaking.

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AGRICULTURAL PRODUCTION SYSTEMS INCREASINGLY COSTLY

Budapest FIGYELO in Hungarian 12 May 83 p 13

[Article by Dr Zoltan Zoltan: "For Long Range Interests"]

[Text] During the last decade the production systems were the most important innovation centers of the agricultural branch.

The factors or functions which established the foundations for the innovative role of the production system centers were the following: the genetic system, the technical-technological system and the economic operating system.

Unprincipled Compromise

In the first stage of their operation the production systems achieved their outstanding results by introducing the genetic basis necessary for sharp growth, mostly by placing imported hybrid types into general domestic production, but we are glad to see that the domestic research bases--which are organizationally independent--joined this process soon and successfully. Since we can no longer expect so much of an accelerating effect from the new genetic types adapted from abroad to make further progress from the high production levels already achieved so far, the role, the importance, and what necessarily joins this: also the need for money of the domestic research is greatly increasing. This is the very reason why those paths and methods must be sought by means of which the domestic production system centers could also financially join as much as possible and with as much incentive as possible, in financing the higher costs of domestic research.

The techniques and technologies applied in production must fit smoothly with the specific biological requirements of the genetic basis--of the types grown or raised. If this smooth fit cannot be assured from the aspect of the techniques applied, then those types and specimens must be selected from what is available which have the most favorable technical-technological tolerance capabilities possible with respect to mechanized operation and care.

However, we must never enter into compromises in this respect which will ultimately harm the product quality. Unfortunately, there are some examples for this also, which in the final analysis resulted in certain weakening

of our traditional market positions. In the independent development of the technical systems we still cannot come close to accepting as great a role as in genetics.

The production system centers perform a wide ranging analysis of the cost, yield, and profitability relationships of those plant crops of the member farms which are in the systems, and all partner farms receive these comparative studies. They also often conduct market winning activities. They are also cooperating in the sale of crops and animal products produced in the system. But this area of their activity is not yet sufficiently comprehensive and systems oriented.

#### In the Front Line

In the first years the activities of the production system centers received much criticism. Perhaps the first of these was that they monopolized the purchase of foreign machinery and seed. Then came the criticism that in the interest of reaching high yields they were trying to "selectively exploit" the production fields with the best given natural conditions. A further "accusation" was that they took the best experts out of direct production and that "they were selling for money" the production innovations which could also be obtained elsewhere.

These observations seemed to not only cloud but often also to question the indisputably positive results of the activities of the systems. In any case significant changes have taken place in the second half of the 1970's in the efforts and methods of the production systems.

Instead of their onesided orientation at increasing the yields, the systems were increasingly endeavoring to decrease the specific costs--mainly the energy costs--, to make comprehensive use of the main and byproducts, and to develop environmental protection technologies.

When it became increasingly obvious after the 1973 oil price explosion that agriculture's high specific energy consumption of the past can no longer be maintained, the production systems initiated the introduction of the energy-saving soil preparation processes, the moist corn storage and feeding method, the energy utilization of agricultural byproducts, etc., and their popularization in the farming operations.

According to the latest data of the Agricultural Research Institute a total of 68 production system centers were operating in this country in 1980. Three-quarters of these were crop production systems. In the area of crop production 21 production systems were active in the production of plowfield crops and 30 in horticultural crops.

In 1980 the plowfield crop production systems operated on 2.5 million hectares, which represented 53 percent of the total domestic plowfield acreage.

Of the production acreage under these systems, 1.1 million hectares produced wheat (83 percent of the total wheat production acreage), 830,000 hectares had corn (94 percent), and 231,000 hectares produced sunflower (90 percent).

In the production systems the average production cost of corn was 16,751 Ft per hectare. Outside the production systems this figure was 14,441 Ft/ha [forint per hectare], that is, about 2,310 Ft/ha, or 13.8 percent lower. Among the production systems the per hectare costs were relatively high in the IKR [Industry-type Corn Production System] and in the KSZE [Socialist Cooperation in Corn Production (located at Szekszard)] (17,380 and 17,226 Ft, respectively). It was about 1,000 Ft or 9.1 percent lower than this in the BKR [Baja Corn Growing System] and in the KITE [Corn and Industrial Crop Growing Cooperation (located at Nadudvar)]. Even though production costs were lowest at the GITR [Grain Industrial Production System (located at Szolnok)], they still lost money on production due to the relatively low yield. Thus in terms of income per hectare the KITE is in first place, where the 2,431 Ft per hectare income for corn was about twice as high as income at the IKR and at the BKR.

#### Exhausted Reserves

Comparing the cost structures of the systems and of the farms outside them, we see that the per hectare energy costs are about 25 percent lower, value losses 29, labor costs 36, and damage costs 56 percent lower in them than the average outside the systems. At the same time chemical fertilizer costs and main branch costs are 11, auxiliary operation costs 20, and the general operating costs 25 percent higher than the average outside the systems. The specific land tax obligations of the farms in the systems--due to better soil quality--were also significantly higher than those of the outsiders.

In general it can be concluded that the per hectare incomes achieved within the systems--with one or two exceptions--are better than on the farms outside the systems. And the size of the additional income is higher than what the differences in soil quality would justify. Indeed, these additional incomes were formed in such a way that the production costs already contain also the additional costs which accompany the system membership, which in this manner are also recovered from the additional yields achieved. On the basis of all this the economic results of the crop growing production systems can be clearly considered as positive.

The results the Hungarian agriculture achieved during the 1970's with the help of the systems have for the most part concealed the shortcomings in the institutional system of the system centers and in the economic incentives. The time had arrived at the beginning of the year 1980 to modify the organizational framework and the interest system of these innovative centers in the interest of increasing the long range efficiency.

Experience of the past growth of the production systems proves that the easily exploited production reserves of the yield increases and income level increases have for the most part been exhausted. The outside cost squeeze and the relatively low wholesale purchase prices require much more "detail work" now to uncover any more reserves. The number of adaptable genetic, technological and technical achievements as well as their spheres of effect have greatly decreased. The innovative process based until now largely on adaptation can continue only by means of significant domestic research and development.

In my opinion the present income regulation system of the production systems is not suitable for generating the financial foundations necessary to fulfill the innovative role. This is also proven by the fact that the sums serving the goals of research and development (5 to 15 million Ft at some of the systems) are not enough for the research tasks awaiting solution, or for purchasing licences.

Naturally, the question may also come up whether the production systems should pay the costs of all research and development programs, or would there be a possibility of covering it together with another portfolio? Undoubtedly, the recently established Agricultural Innovation Fund will also have a large role in resolving this question. And in order to develop the system of enterprise contributions it should be clarified what kinds of research and development expenditures should the systems finance in return for the system fees they collect, and which are those efficiency increasing innovations for which they can charge the partner farms so-called "novelty premium" to be paid from the additional profits.

Recently separate research and development associations were formed at some production systems. In my opinion this organizational format should somehow be built into the framework of the systems. In the future the production systems will be able to help improve further growth and efficiency only if they also fulfill the sphere of tasks of the research and development center.

Summing it all up, the ten-year experience of the operation of the production systems and more successful solution of the tasks ahead of us would justify refining our system of incentives and increasing their efficiency.

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WHEAT, CORN PRODUCTION REMAIN PROFITABLE DESPITE HIGHER COSTS

Budapest MAGYARORSZAG in Hungarian 5 Jun 83 p 25

[Article by Marton Lovas: "High Grain Yields"]

[Text] According to old Hungarian usage, a profitable business, an industrial, agricultural or commercial enterprise operating with a high profit margin, is referred to as a "gold mine."

Bread grain and feed grain (wheat, corn, etc.) are the Hungarian economy's gold mine not only figuratively but in fact as well. For example, the 14.8 million tons of grain produced in 1982 is worth, at the government procurement prices, at least 45 billion forints, and of this total grain harvest more than 2.0 million tons can be exported, predominantly for convertible currency. The annual grain crop is worth more than 1.0 billion dollars.

One characteristic of this gold mine is that it is renewable, unlike the mineral resources ranging from petroleum to coal. Its ultimate source is solar energy and the human factor that is becoming more and more productive.

Teamwork

Moreover, there is more of this "golden grain" with each year. At present we are producing twice as much as before the liberation. But the following question suggests itself: How much does this 45 billion forints actually cost us? How profitably are we producing and export grain?

Well, the national economic significance of grain production lies specifically in that its profitability is among the most favorable; the wheatgrower can earn a dollar for the smallest amount of forints.

It is common knowledge that grain prices have dropped recently on the world market. The price of a ton of wheat, for example, dropped from 160 dollars earlier to 112 dollars at the beginning of 1983 (North Sea port prices). According to the unwritten laws of the business cycle, a price drop will be followed eventually by a price rise.

Converted to Hungarian forints (112 x 40), this "low" wheat price equals 4,480 forints. By comparison, the government procurement price of a ton of wheat was below 3,200 forints. For our agricultural enterprises, wheat has proved to be a profitable crop (from the viewpoint of production costs and of the proceeds from its sale). Presumably this is why the wheat acreage has been stable for years. (Today it is 1.3 million hectares.)

If we examine the production cost of wheat, the picture becomes even more favorable. The production cost of wheat amounts to between 60 and 80 percent of the proceeds from the sale of wheat. To obtain the net value of farm production we deduct this cost from the gross value. The incomes of many Hungarian industries (production of machinery, nitrogen fertilizers and plant protectants, transportation, storage, etc.) stem from this "cost." In other words, grain production realizes the incomes of the industries that are participating indirectly in the production of grain. For today the grain crop is not the fruit of peasant labor, rather the final results of industrial-agricultural teamwork.

Production of corn as our second major grain crop exceeded 7.6 million tons, more than half of our total grain crop, from an acreage of 1.2 million hectares, smaller than the wheat acreage. The profitability of corn production is not so unambiguous as the profitability of wheat production. Where it grows well, the income (per hectare) is higher than the income from wheat; but where the yield is less than 4,500 kilograms per hectare, the high costs of industrial raw materials can make growing corn unprofitable. But in Hungary in 1982 we harvested more than 10 tons per hectare on 45,000 hectares, and more than 9 tons per hectare on 100,000 hectares. In the case of such yields the gross income from corn is 5000 to 6000 forints per hectare, as compared with 3000 to 5000 forints per hectare from wheat. The average corn yield in 1982 was 6800 kilograms per hectare, a domestic record.

The world-market price of corn is about 20 percent lower than that of wheat, but its feed value is the same as that of wheat. In Hungary corn is grown for feed, and it is converted into meat. Meat production in Hungary was 0.75 million tons before the liberation, but in recent years it has exceeded 2.0 million tons a year, in terms of slaughter weight. Our export of meat and slaughter animals is roughly 30 billion forints, nearly three times as much as our proceeds from the export of buses. (And it is likewise not immaterial that we export meat mostly for convertible currency.) Hungary's grain production yields gold not only in terms of the physical (direct) export of grain, but also indirectly, through exports of meat. The growing of feed grain is the basis of Hungary's meat production.

#### Grain Export

Our per capita grain production (the yardstick for international comparisons) in 1982 was 1400 kilograms, twice as much as in the developed countries of Western Europe whose meat production is based on imported American corn (the Netherlands, United Kingdom, Italy, Spain, etc.). These countries are the world's biggest importers of feed grain.

Hungarian grain production, increasing from a prewar level of 6.0 million tons to nearly 15 million tons, has changed radically. The traditional methods and tools of production have practically disappeared (draught animals, horse-drawn drills, sowing by hand, harvesting with scythes and threshing machines, etc.). Grain production has developed into a scientifically substantiated, completely mechanized, industry-type "production process" in which 240 kW tractors, combines and helicopters operate with high efficiency. The annual performance of a Hungarian tractor and combine operator (440 tons of wheat and 700 tons of corn) is the highest in Europe. A brigade consisting of a few persons cultivates several hundred hectares of wheat and nearly 1000 hectares of corn.

Plots 100 hectares in size and the huge total acreage are only one of the prerequisites for high yields. Grain in Hungary is grown exclusively by the socialist large-scale farms. (The household plots are plowed and harvested with the machinery from joint farming.) The integrated small producers are outworkers of the socialist large-scale farms.

The large agricultural cooperatives and state farms have voluntarily joined associations that dictate the production technology for the territory of several megyes, on several hundred thousand hectares. As a result, the nation's grain farms are using the world's most productive seed, and the most advanced methods of fertilizer placement, top dressing and leaf spraying; they are feeding the crops and replenishing soil fertility; and they also are operating the most modern farm machinery. The several thousand agronomists, mechanical, chemical, etc. engineers of our five large production systems--the Nadudvar KITE [Corn and Industrial Crop Growing Cooperation], the Babolna IKR [Industry-Type Corn Production System], the Szekszard KSZE [Socialist Cooperation in Corn Production], and the Baja and Szolnok production systems--are directing production on 90 percent of our grain acreage. They are familiar with the latest advances in science and technology and are applying them on their member farms.

The source of economic success has been high productivity based on thorough professional knowledge. It is common knowledge that our food production is the pillar of our living standard and relatively good functioning of our economy. One-third of our food production is exported. In 1982, 80 billion forints' worth of food export also contributed to the fact that Hungary did not become shipwrecked in the storm of world economic crisis, unlike many other countries.

Limited international effective demand and declining food prices have caused also our economy substantial losses and might make cutbacks necessary in the production of some foodstuffs. Poultry and apples also belong among the foodstuffs affected by the recession.

However, grain production has remained profitable and is earning foreign exchange even amidst the recession. Forecasts indicate that Hungarian wheat and feed grain will find a market in densely populated Europe and the CEMA countries, in the immediate as well as the more distant future. This explains why the long-range plans call for the expansion of grain production. For the 1990's we are planning to produce 18 million tons of grain a year. This will further increase our so essential grain and meat export.

For the expansion of grain production the production systems have elaborated intensive grain-production programs that will increase the yields particularly on the farms that up to now had below-average yields.

#### Two Tendencies

Two tendencies can be observed in grain production. One is raising the average yields of the lagging farms. Here the reserves are considerable because the efficient farms already are averaging 6000 kilograms of wheat or 9000 kilograms of corn per hectare. The national average yield per hectare in 1982 was 4400 kilograms for wheat and, as we have already mentioned, 6800 kilograms for corn. (The new Martonvasar wheat varieties are yielding 8000 kilograms per hectare; and the hybrid corns, 12,000 kilograms.)

The other tendency is to expand the acreage. Primarily the corn acreage should be increased, because in recent years the corn acreage has been declining, due to the high costs of industrial materials and the modest incomes. The acreage can be increased by drainage and soil reclamation (amelioration), and the land on which apple orchards and vineyards have been planted must again be converted to grain. (The growing of these fruits is becoming unprofitable because of overproduction.)

Thus the further increase of grain production is a manifold task.

1014  
CSO: 2500/291

OFFICIAL COMMENTS ON REFORM, ECONOMIC POLICIES

PAP Warsaw DAILY NEWS in English No 89, 6 May 83 pp 4-5

[Text] "Compatibility of the directions of restructuring the functioning of the economy with the approved economic policy lines will largely determine whether we succeed in accomplishing a genuine rebuilding of the manner of functioning of the economy. Of basic significance will be the attitude to the 'plan vis a vis the reform' question," wrote the government commissioner for the economic reform Wladyslaw Baka in today's edition of *IZECZPOSPOLITA*.

"The hazards involved are: first, the doctrinaire clinging to every provision and uncritical application of rules laid down in the legal act carrying the reform into effect even if practice has exposed shortcomings of the given provision.

"Second, an arbitrary approach according to which if need be, in order to implement the plan we shall resort to tools incompatible with the reform but effective."

"Far more real is the second hazard. For precisely such approach was largely responsible in the past for the fact that attempts to reform the economy had failed which in the final analysis led to tensions and crisis," Baka opined.

"Constant analysis and evaluation of assumptions and mechanisms of the reform against the background of conditions and goals of the socio-economic policy conducted under social supervision guarantees correct solution of that complex problem.

"The last few weeks have proved that precisely such approach is getting to become a lasting feature characteristic of the style of directing matters of the economy and the state. This is borne out by the course of preparations of the 3-year plan, as well as the course of social discussion on the document and, in particular, the role played by the Sejm in the final shaping of the document," the paper continued.

"Moreover, this is demonstrated by the emphasis placed in the communique of the political bureau and government presidium on the fact that

implementation of the austerity programme should absolutely be based on the principles of the reform.

"This augurs well for the full synchronization of the economic policy with assumptions of the economic reform now in the course of implementation," said Baka.

CSO: 2020/36

NATIONAL BANK PRESIDENT DEFINES 'TIGHT MONEY' POLICY

Warsaw RZECZPOSPOLITA in Polish 14 Apr 83 p 3

[Interview with Stanislaw Majewski, president of the Narodowy Bank Polski, by Ryszard Bilski]

[Text] In society's understanding, inflation means the introduction into circulation of increasingly larger amounts of zlotys whose value is declining. Since the growth of emoluments (nominal incomes are growing) is still insufficiently connected to production growth--as a rule wages go up faster than labor productivity--it is still easier to get money than goods. This generates and aggravates inflation.

In the governmental program of fighting inflation, the introduction of, and strict adherence to the principle of "tight money" has been announced. What does it mean in practice? With this and many other questions regarding the fight with inflation, a RZECZPOSPOLITA journalist approached the president of the Narodowy Bank Polski, Stanislaw Majewski.

[Answer] Tight money does not simply mean expensive money and higher interest-bearing credit. Enterprises' access to bank credit will be hampered more by sharpened factual criteria than by the higher interest rate. In the past, credit money often was "eaten up" instead of being used to stimulate and develop production, and ended up in the pockets of employees. The result was an increased rate and spread of inflation.

Today, in order to obtain credit, it no longer suffices to have the capacity to pay off a loan.

[Question] Won't this be against the principles of self-financing? Will enterprises not decipher these limitations as an attempt to curb their independence?

[Answer] Independence cannot be understood unilaterally as giving enterprises full freedom to make credit demands and give banks the duty to meet these demands.

In granting credit, the bank not only has the right, but also the duty to know on what this money will be spent, what economic and social results it will bring about. We cannot continue to give credit automatically.

No bank grants credit "in the dark," asking only whether the customer is solvent; even less so the Narodowy Bank Polski. In the unbalanced, "starved" market, enterprises often are in the position of monopolists dictating price conditions. In this manner they have high gains, profitability, and thus have credit capacity.

[Question] What then are the conditions an enterprise must meet now in order to obtain credit?

[Answer] The concept of credit capacity continues to exist and this criterium is required, but it is no longer sufficient for an enterprise to make profits. To put it briefly--it should be working effectively. Thus it not only increases productivity, production, lowers material costs, improves quality and does not "consume" too many funds, but also devotes these funds to modernization and development, with the future in mind.

The bank is not interested in a factory's present situation. Among the conditions of giving credit, the time criterium has been introduced. Today a producer of junk goods has a ready market for his products and makes profits and thus, nominally, is solvent. Once, however, the warehouses and stores are filled, his products no longer will find buyers. Thus we require that a program of quality improvement, adjustment of the product range to market needs, and so on, be presented.

Priority is given to the development of production for consumer market and exports. An increase in market supplies, combined with the mentioned effectiveness activity, will to a significant degree help to slow down inflation and bring about general normalization. Exports, on the other hand, are necessary for imports of raw materials for consumer production. The well-known and perhaps by now somewhat "worn" slogan, "If you want to import, you must export," in the present situation takes on a special significance. We now pay "hard" cash in the West for raw materials, goods, and coproduced parts; we get nothing on credit. Thus the more we sell, the more foreign-exchange we get and the greater will the import possibilities be.

That is why credit and money ought to go where they will bring an increase in production.

[Question] Will the proposed impediments to the access of "easy" money which would be irrationally spent, work? After all, an independent enterprise can under any circumstances undertake the decision to limit funds for development and devote them instead to an increase in, for example, wages...

[Answer] I do not deny that an enterprise can do precisely that, but at the same time I am also convinced that such cases will be increasingly less frequent. We will oppose such tendencies decisively. By limiting bank credit we will force enterprises to engage--in a greater degree than before--their own funds, both for investments and for current activity.

The credit aid will be... flexible. For example, if a producer makes higher gains and more funds than it was apparent from the assumptions of the financial plan that was at the basis of the credit agreement, and will not engage them in the appropriate part of development, then credit will be reduced.

In conclusion: the bank will undertake a factual and not a perfunctory evaluation of the credit capacity of enterprises.

[Question] Is the bank prepared for it? The experiences of the past year are not promising, it is believed that enterprises have slipped away from bank control...

[Answer] The bank had no formal basis to oppose increased payments of remunerations. Although factually we had a basis, we paid attention a little too late. Also at blame was the one-sided understanding and interpretation of independence by enterprises, which turned into... arbitrariness.

I would like to recall and emphasize, however, that in many cases both the obtaining and restoration of credit capacity, as well as management of the earned profits, took place in a proper way and in conformity with society's interest. To a certain degree it was thanks to the bank.

That is why now bank employees have been obligated to participate in the work of enterprise assemblies elaborating economizing and anti-inflation programs--which would permit the utilization of reserves and lower production costs.

[Question] One can encounter the opinion that the economizing and anti-inflationary programs are a certain vote of no confidence in the reform. It is being said that the economic reform did not activate the effectiveness mechanisms, and therefore it was necessary to reach for the old method--creating programs and laying down administrative rules...

[Answer] It is absolutely not a vote of no confidence for the reform. On the other hand, it is a concrete and correct reaction to its lack of effectiveness which results from the exceptionally difficult conditions of its implementation. In one's worst expectations one could hardly imagine so many obstacles and impediments which we have to overcome today. It is they that weaken the effectiveness of the reform's mechanisms.

The Vocational Activation Fund in its first version did not pass the test. To put it briefly--instead of leading to an increase in productivity and elimination of the excessive number of people employed, it led to a "blow up" of the number of people employed and in consequence, to a decline in productivity.

I stress that the realization of the programs of economizing and anti-inflation ought to contribute to better conditions for the implementation of the reform. Both programs are not meant to replace the reform, but to give it support.

12270  
CSO: 2600/864

TARGETS, INSTRUMENTS OF 'TIGHT MONEY' POLICY DESCRIBED

Warsaw TRYBUNA LUDU in Polish 20 Apr 83 p 4

[Article by Krzysztof Krauss]

[Text] A separate chapter of the governmental economic policy instrument's draft designed for accomplishing the 3-year plan and associated with it anti-inflationary and saving programs consists of financial tools that influence enterprises. It is closely related to suggested assumptions in this document of banks' credit-monetary policy.

A leading principle: enterprises manage independently and are self-governing, income from their activities ought to cover all expenses, but the only way leading to achieving profits has to be actual progress in the effectiveness of management, worked out solidly in accordance with the whole society's interest. In this sense a policy of "tight money" is being established, realized mainly with the help of a proper turnover of the income tax system.

A flexibly-utilized turnover tax would perform a triple role: price-creating, fiscal, and regulatory. Price-creating in the sense that the lower scale of this tax, reduced rates and exemptions ought to ease enterprises in achieving adequate profitability with relatively lower prices charged by them for standard products, and purchased by low or middle-income groups. An increased turnover tax would be imposed on the so-called above-standard products. It would bring the prices of these products closer to an equilibrium but the additional influx caused by the relatively higher prices of this group of products would not go to the enterprises' cashbox but to the nation's treasury. A uniform turnover tax rate in relation to all products would make privileged factories dealing with the production of so-called above-standard products; it would create an escape from production for mass consumption. Additional influences resulting from the higher price level, the so-called above-standard products would accelerate inflation, it would create the possibility of raising wages in enterprises selling their own products at higher prices. However, a takeover by the state--in the form of a diversified turnover tax--of these additional means ought to enable utilizing them for financing important social goals, such as health care, education, etc. "This tax then, it is stated in the government's

propositions, will be used for counteracting obtaining by enterprises unfounded by the improvement of results in economizing financial advantages [remainder of sentence illegible]."

The fiscal and regulatory function of a turnover tax is obvious: this tax, as is known, is an elementary source in strengthening the nation's budget, and at this moment a significant deficit is occurring the balancing of which is one of the essential premises in halting the inflationary processes.

The income tax from enterprises would influence greater production cost discipline, among other things, than now. For this purpose, government is considering propositions that maintain the principle that the income tax be charged not only on enterprises' profits, but also on unjustified costs and waste. Another function ascribed to income tax is support of those economic undertakings by enterprises on which the state places particular significance. In these cases some relief would be allowed in calculating income tax.

Among economic policy instruments of the government three propositions are mentioned in which enterprises would receive relief in calculating income tax:

--To qualify for this relief, enterprises must undertake investments and modernization, leading to an evident decrease in energy use, fuels, raw materials and other materials;

--the same applies for undertaking production based on utilizing wastes, secondary raw materials or defective materials;

--and in increasing export production and realizing investments leading to the initiation of profitable anti-import production.

The banks' money would also be "tight" for acquiring credits complementing the enterprises' own means. Bank credits are not designed for everybody, but only for those enterprises which conduct rational economic activity, and receive favorable financial results guaranteeing payment of all loans. In granting credits for current activities, a binding role is that growth in the amount of credits granted ought to be slower than the increase in production achieved by these enterprises. It ought to lead to a successive increase in the use of the enterprises' own means (and not the means coming from bank credits) in financing the constant, current needs of enterprises (the purchase of raw materials and materials for production, financing reserves, etc.).

As far as investment credits for enterprises are concerned, they ought to be granted in the first place for finishing those undertakings which were begun in previous years and which involve already a relatively large amount of capital.

For newly undertaken investments, banks will be granting credits only if needs are fulfilled resulting from crediting continuous investments, and up to the amount approved by the Sejm for a given planned credit year. In the first place, credit proposals should be considered, closely related

to preferred development directions, that is, to development of a food complex, to market and export production, to inventions leading to energy conservation, fuels, raw materials and other materials. Preferential treatment will be enjoyed by those undertakings which assure the quickest and most advantageous return in capital inputs.

Separately, a case of investment in the hard and brown coal industry will be resolved, leading to construction of productive capabilities in these sectors of the economy. To this end there must also be found the means even when the time of return of inputs is relatively long, and inputs for receiving a unit of growth in the value of production are relatively high.

But clearly the specifics of this sector, resulting from natural causes, demand higher outlays than most other production sectors, in growth of investment-intensiveness and in the relatively long period of amortization of involved inputs.

The rank of these industries, their impact on the functioning of the whole economy is so great, however, that there is no way to apply a simple "comparative" account, and it is necessary to utilize an account which utilizes a considerably broader range of economic consequences in undertaking or giving up investments.

9818  
CSO: 2600/846

PROPOSED TAX LAW CHANGES ASSESSED BY MINISTER NIECKARZ

PAP Warsaw DAILY NEWS in English No 91, 10 May 83 pp 25-26

[Text] Finance Minister Stanislaw Nieckarz presented a draft of new solutions in tax policy during a press conference held on May 5, 1983.

The solutions refer to the Sejm's resolution on the national socio-economic plan for the years 1983-85 on the anti-inflation and austerity programmes.

"The tax system must be comprehensible, clear and stable. We treat our plans for the next few years as another stage leading to the target model of tax policy in Poland featuring a universal income tax. It is not easy to design an optimum tax system. The new tax system is aimed at optimizing the existing solutions," said Minister Nieckarz.

The proposed changes in the tax system are aimed at: preventing excessive incomes, i.e. those socially unwarranted and not matched by labour inputs, just distribution of the burdens of economic crisis on all socio-professional groups, using tax instruments to help restore equilibrium in the consumer market.

This aims will be realized through levying of taxes in proportion to incomes.  
[as published]

"New tax solutions will apply to all socio-professional groups, i.e. people employed in private non-agricultural sectors, in socialized economic sectors, and in private agriculture."

Tax policy will still support the development of crafts, private trade and services, but new conditions of running enterprises resulting from the economic reform and the implementation of the principle of social justice demand introduction of new solutions to the tax systems.

Starting with the first quarter of this year, bigger crafts workshops and service enterprises have been obligated to keep income records, and trade enterprises--to maintain records of their purchases.

"Systematic solutions as well as their application will be aimed at just and balanced taxing of incomes obtained legally and in an honest way,"

stressed Nieckarz. "Severe fines and penal measures will be applied against those who will try to line their pockets fast and using all kinds of methods."

As far as the equalizing tax is concerned, in order to maintain the role of wages as an incentive to work, modest tax rates have been proposed for lower incomes, with increasing progression. It is proposed that no equalizing tax be paid on income not exceeding 300 thousand zloty per year. Wages earned on work-free Saturdays and Sundays will be exempted from taxes.

The new tax system will stimulate production increase in agriculture, favour an improvement in the efficiency of agricultural production and facilitate fuller use of light soils.

The basic rule of land tax would be equal taxing of every hectare in all sectors of agriculture. Tax remissions will be provided for agricultural investments financed by farmers.

CSO: 2020/35

POLAND

GUS COMMUNIQUE ON APRIL ECONOMIC PERFORMANCE PUBLISHED

Details of Communique

PAP Warsaw DAILY NEWS in English No 95, 16 May 83 pp 10-14

[Text] The Polish Central Statistical Office (GUS) today issued a communique on the country's economic performance last April. It said that the economic situation in April was characterized by the following phenomena:

The socialized industry's sold production in constant prices was by 4.9 per cent higher last April than in the same month in the previous year. Comparing with March, production output decreased by 7.2 per cent over the respective working time in April. April's fall in output from March levels also took place in previous years but it had been smaller than this year. Above all, this was influenced by a production slump in the food industry, the alcohol and meat industry in particular.

Ferrous metallurgy, machine, electro-engineering and electronics industry, glass, textile and leather industry recorded a higher output growth than the overall industrial average.

The output of lignite, oil processing, pig iron, rolling products, copper, zinc, lead, aluminium, passenger cars, washing machines, refrigerators and freezers, sulphur, nitrogenous and phosphatic fertilizers, plastics and chemical fibres, tyres and acid accumulators was higher than in April of last year.

The output of hard coal, natural gas, coke and radio sets was smaller in April.

In the period from January throughout April this year, the sold production of the mining industry increased by 4.3 per cent and the output of the processing industry rose by 10.5 per cent, comparing with the same period of 1982.

Productivity (calculated as the value of sold production per worker) in the socialized industry was up 6.3 per cent in April and up 12 per cent in the January-April period.

Productivity calculated as the value of sold production per one worker/hour was up 10.2 per cent from the period of January-April in 1982.

April's climatic conditions were favourable for agriculture. Spring grain sowing was virtually finished by the end of April. 78 per cent of the planned sugar beet and 54 per cent of the planned potato area was sown. Accelerated plant vegetation made it possible to start cattle grazing earlier.

At the end of the first quarter domestic animal stocks were smaller than in the respective period last year. Cattle stocks slumped by 3.7 per cent and the number of hogs decreased by 14.7 per cent, comparing with the end of the first quarter last year. The number of sows dropped by 23.7 per cent and the number of piglets fell by 31.3 per cent from the levels at the close of the first quarter last year.

The purchase of milk in April this year was by 23.3 percent higher and in the first four months by 18.6 percent higher than in the corresponding periods of last year.

The demand for basic farming equipment and machinery was visibly more fully met.

This April, the socialized sector of housing construction commissioned 5.4 thousand flats, 16.2 percent less than in April last year.

However, in the first four months of 1983, the number of flats commissioned was by 14.9 per cent higher than in the corresponding period of 1982.

In the first quarter of the current year, the socialised sector of economy commissioned for use investment projects whose value at cost calculations was 28.2 thousand million zlotys, i.e. 77.9 percent of tasks envisaged for commission in the period under discussion.

In April this year, the socialised transportation enterprises carried 88.8 million tonnes of cargo, roughly the same amount as in April last year.

The carriage by standard gauge rail was by 2.8 percent bigger. The carriage by road transport was by 3.8 percent smaller.

In the period from January to April this year, the amount of cargo transported was by 3.9 percent higher than in the corresponding period of last year, in this transports by railway were 4.6 percent up and those by road 2.4 percent up. The maritime shipping was by 5.3 percent bigger than in the first four months of last year.

In the first four months of this year Poland's commercial seaports handled 19.6 percent cargo more than in the corresponding period last year.

In the first quarter of 1983, socialised enterprises in this country achieved surplus final balance (account of gains and losses) amounting to

344.7 thousand million zloties, the surplus balance was recorded by 94.2 percent of all enterprises whereas 5.8 percent of enterprises recorded a loss.

The financial results of some enterprises were considerably influenced by government subsidies which in the first quarter of the current year amounted to 143.2 thousand million zlotys, and 177.2 thousand million zlotys in the last quarter of 1982.

Foreign trade exports in April this year were 15.2 percent up (in current prices) and imports 16.6 percent up as against April 1982.

From January to April this year exports grew by 13.2 percent and imports by 22.1 percent as against the same period last year.

In trade with the socialist countries exports in April this year were 22.5 percent up and imports 13.6 percent up as against April 1982.

Exports to the capitalist countries in April this year were 6.9 percent up and imports 22.6 percent up as against April last year.

Average employment in the basic sectors of the socialised economy--i.e. industry, building, transport-and-communications and trade in April this year was by 0.5 percent smaller than in April last year.

The average monthly pay counted together with compensations for employees and gain payments in the sectors mentioned above in April this year was by 34.2 percent higher than in April 1982.

The retail sale of goods by state enterprises at fixed prices in April this year was by about 6 percent higher than in April last year--the sale of non-food articles grew by about 14 percent, the sale of foodstuffs stayed close to the level from April 1982 and the sale of alcoholic drinks dropped by about 11 percent.

In April this year, like in the preceding months, supplies to the home market fully covered the demand ensuing from the rationing system.

#### Communiqué Assessed

PAP Warsaw DAILY NEWS in English No 95, 16 May 83 pp 20-21

[Text] The picture of economy emerging from data presented in the latest communiqué of Poland's Central Statistical Office (GUS) is varied but there is no doubt that it undergoes further normalization, consistent progress with respect to the difficult months of the previous year, and improvement of certain important economic relations.

We are still wrestling with difficulties, but the basic social needs--whose satisfaction was to be guaranteed by the system of rationing--are being met. Housing construction has "moved", trade stocks are improving,

much better supply of agriculture in basic machines and implements makes a good promise for the future harvest, fodder and chemical fertilizer stocks are much bigger than a year ago. Also weather has been favourable for agriculture, accelerating plant vegetation.

This varied picture of economy is not painted in bright colours only. The top-most negative factor was the fact only 78 per cent of the planned investment projects were commissioned in the first quarter of the year. The decline in domestic animal stocks is continuing.

Poland's economic partners presumably follow with attention the rise in foreign trade turnover and, especially, the continuing surplus in trade with the capitalist countries which strengthens our credibility as the payer of debts to these countries.

The political decisions of the socialist states, the Soviet Union in particular, which assist Poland in her efforts to restore market equilibrium and counter inflation by crediting Poland's deficit in trade with the socialist countries, become especially significant in this context.

CSO: 2020/33/34

HUNGARIAN EXPERIENCE TOUTED AS MODEL FOR IMPLEMENTATION OF ECONOMIC REPORT

Warsaw ZYCIE WARSZAWY in Polish 8 Jun 83 p 2

[Article by (j): "How Did the Hungarians Do It?"]

[Text] Many experts who are pondering the question of how to go about reforming a socialist economy believe that there is something unique and innovative about their efforts along these lines. However, the first ideas on the subject of socialist economic reform originate in the Soviet Union and date back to the debates under way in that country in the 1920s.

In those days socialist economic theoreticians were divided into three groups. One group was in favor of so-called market socialism, that is, a socialism under which the market mechanism overlaps with the economic planning mechanism. A second group advocated parametric guideline management, that is, the indirect management of the economy by the central government. And, finally, there was a third group advocating absolute centralism enforced by means of the command-directive system of resources allocation.

Economic model debates have unfolded in a similar fashion in other socialist countries. The Hungarians and Yugoslavs can talk at length about the implementation of economic reforms. The Poles, too, are setting out to make some changes in the way they run their economy, and not for the first time either. To make a long story short, the legacy of lessons from the past that we carry with us as we now embark on economic reforms is considerable, nor is there any point in beating down doors in each and every area that have been open for a long time now. So, it was for this reason that the Main Board of the Society for Scientific Management and Administration, working together with its Hungarian counterpart, organized a symposium held yesterday in Warsaw on the subject of the Hungarian economic reform.

Keynote addresses were presented for the Polish side by Professor Andrzej Kozminski, vice chairman of the Main Board of the Society for Scientific Management and Administration, and for the Hungarian side by Dr Gyula Berci, secretary general of the Hungarian counterpart organization.

The Hungarians worked on the planning of their reform over a period of 3 years before they embarked on its implementation in 1968. During the course of the preliminary debate held during this 3-year period, stated G. Berci in his address, nobody was labeled a revisionist or dogmatist, and everyone was most concerned about finding the best possible solutions to the problems at hand.

The Hungarian reform can be divided into three phases. The first phase lasted from 1968 to 1972. It was during this period that the principle of enterprise autonomy and parametric guideline management of the economy by the central government was put into practice.

The second phase covered the period 1972-1978. This phase was marked by a major slowdown in the rate of progress in comparison with the preceding period owing to the fact that the reform process met with some strong resistance. Most of this resistance was put up by sector-oriented government ministries which could not reconcile themselves to such a substantial forfeiture of power. Some enterprises also adopted a negative attitude toward the reform, since the institutional machinery of the reform caused less efficient firms to suffer a deterioration in earnings performance. Nor was the public prepared to accept these changes, since it wanted egalitarianism and not differentiated incomes. Some members of the party apparatus, which considered the reform to be incompatible with the political system, were of a similar opinion.

The third phase runs from 1978 up to the present. Obstacles standing in the way of the reform's progress are gradually being eliminated. The main object right now is to reinforce the system of indirect planning while at the same time retaining a wide margin of enterprise autonomy.

What has the reform done for the Hungarians? Most importantly, it has raised the level of performance efficiency in the economy. Moreover, it has done an effective job of maintaining market equilibrium, notwithstanding the dislocations which are occurring in the realm of international trade. The employees of business enterprises have begun to understand the importance of such economic concepts as profits, prices and interest rates.

What conclusions can we draw from the Hungarian experience? First, that the only chance economic reform has of succeeding is when it is backed up by political support. And secondly, that a compatible relationship has to exist between economic policy and the newly established economic control mechanisms. The Hungarians are trying to be consistent in living up to these principles in keeping with a statement made by Janos Kadar that was cited at this conference by one of the participants: "There is no point in arguing whether the solution to a given problem is consistent with socialism or not. The problem should be posed in a different way. Namely, one should ask whether or not this solution is socially beneficial. If it is, then it is a socialist solution to the problem."

CSO: 2600/1003

DEPUTY MINISTER OPPOSES COMPULSORY GRAIN, MEAT DELIVERIES

Warsaw TRYBUNA LUDU in Polish 18 May 83 p 4

/A Response to Participants of the National Conference of Workers' Aktiv; TRYBUNA's interview with a representative of the government by Halina Dowda: "Together With the Farmers Applying Equal Rules," time and place not given/

/Text/ To introduce compulsory deliveries of grain and meat--a proposal appearing in various discussions, was also voiced during the National Conference of Workers' Aktiv. There were many proposals regarding food production. Today, Dr Jozef Koziol, first deputy minister of agriculture and food economy, responds to those proposals.

Compulsory Deliveries--Illusions and Realities

Bogdan Jedrzejewski of the Capital Voivodship of Warsaw: Compulsory deliveries of grain and meat should be introduced.

Piotr Gdal from Katowice: It is necessary to impose on the farmers compulsory deliveries. If the worker has monthly and annual plans, why can't the farmer?

Jan Kozlowski from Byogoszcz: Within the anti-inflationary program as it applies to increasing the animal production, a requirement should be included to keep a minimal number of animals on every individual or collective farm. This would permit utilization of vegetable waste as fodder.

Dr J. Koziol: Proposals to introduce compulsory deliveries are often repeated although it seems that, at the time of abandoning the command system throughout the economy, the moment is totally inopportune. Compulsory deliveries were abolished 10 years ago--agricultural levies in kind were called anachronistic at that time. And one more reminder: only in the very earliest period, agricultural compulsory deliveries played a significant role in the food economy. Abolishing compulsory deliveries not only did not cause a decrease of food supply but it contributed to the increase of agricultural production and, consequently, of the supply.

In view of these facts, is it realistic to expect that compulsory deliveries will be effective against the shortcomings of the food market mechanism? Longings

for the command economy methods keep reappearing (as well as the difficulties of their implementation), they have not been overcome either in the economic practice or in the public mind. It is known that grain deliveries are not coming in accordance with the plan. The memories of the breakdown of socialized deliveries in 1981 are still vivid. At that time less attention was paid to the economic causes than to the disorganizing effects on food distribution. The economic facts are cut and dry: the total collapse of market mechanisms for means of production and for items of mass consumption, accompanied by a fall in the value of money, caused an inevitable reaction.

From the perspective of 1983, it can be said that if during the most difficult period of time we have succeeded in stabilizing the food market mechanism without recourse to compulsory deliveries, they certainly should not be imposed now. It has been proven many a time that compulsory deliveries limit the increase of production. They mean imposing on the economy a structure, and to some extent prescribing a volume of production, which disregard natural conditions, labor resources, the availability of means of production and other production factors. The proposal to establish a minimum number of animals on every farm must be considered in the same context. From the production point of view, there are many more reasons to oppose compulsory deliveries, for instance: when establishing the quantities to be delivered, it is necessary to gear them to the weaker farms thus, in practice, imposing the lowest standards throughout the agricultural economy.

Efficiency of production which is programmed from outside cannot be high--this has been proven beyond any doubt. For this reason, compulsory deliveries are an illusory solution which is really counterproductive in relation to the current main task of the whole economy which is to improve the economic efficiency. Such a solution would be contrary to the chief purpose of the 3-year plan recently passed by the Sejm and to the principles of economic reform. Today, no economic unit receives binding production directives and this principle should equally apply to industry and to agriculture.

To steer the agricultural production in the right direction, the economic measures are more effective than commands. The main objective of the farmer, just like of the worker, is to earn good income. Just as the profit for the industry, so the income for the farmer is the incentive to make an effort. As the workers in factories, so the farmers should have the right to plan independently their production. The government's task is to put in place such economic mechanisms that would induce production which is most desirable from the society's point of view. In general, this is the purpose of the economic reform and in this respect there must be no differences between the industry and the agriculture. There may be differentiation in the mechanisms designed for the specific needs of agriculture but none in the applicable principles.

In respect to the peasant economy, the economic mechanism is rather simple and effective. If a farmer wants to have higher income, he must increase production and manage his farm efficiently. Such behavior is in society's interest. A case in point: despite a decrease in availability of means of production, especially fodder, the production of peasant economy increased in 1982 and all of the increase found its way to the socialized distribution channels. Farmers

sold over 80 percent of their production to socialized purchasing center and, it is estimated, about 10 percent on the free market. Here an explanation is necessary. Free market includes not only food, as it is widely believed, but primarily it includes trade with neighbors, and in the market squares, of fodder, seeds and farm animals.

The year 1982 provides the best argument for the superiority of economic tools over other solutions. Especially, that there was an unfavorable condition, which still persists, which was that the shortages of means of production weakened the efficacy of economic mechanisms. Thus, there can be only one conclusion: it is necessary to improve the existing methods of influencing agricultural production through prices, through better organization of the agricultural market, through improving supplies to the rural population and through development of services. Restoration of market equilibrium, assuring profitable prices to stimulate the increase of production and maintaining the level of incomes of the agricultural and nonagricultural population must be considered the principal way out from the food crisis.

#### Contracting--Production to Order

Zdzislaw Bojar from Zamosc: Contracting for agricultural products, especially meat on the hoof, should be more closely tied to production.

Tadeusz Wroblewski: Further improvements of the contracting system should be: conducting contract negotiations through the raw material procurement services of meat packing plants, increasing the aid to producers by assuring profitability of animal production and increasing the quantities of protein concentrate and of coal for each hog sold.

Dr J. Koziol: Zdzislaw Bojar's demand is satisfied by the new contracting principles. At the moment, final details are being coordinated. The new principles regarding animal production will be in effect starting 1 July. To encourage closer ties between contracting and production, the involvement of contracting units is enlarged in organizing professional counseling, in production services and in furnishing seeds and plant protective materials. Contractual documents address the provision of those means of production which are in short supply, especially mineral fertilizers and industrial fodder.

The great majority of mineral fertilizers will be allocated through the contracting mechanism and the sale of concentrates and fodder mixtures is planned to be totally assigned to the contracting requirements. These are the ministry's proposals submitted for discussion to the professional agricultural organizations.

Direct contracting by meat processing plants, proposed by Tadeusz Wroblewski, is not a new solution. For the last few years, in several voivodships, meat on the hoof was contracted for by the raw material procurement services of meat industry. Wherever the contracting is done by communal cooperatives on behalf of the industry, its assumption by the industry depends only on establishing industry's own raw material procurement service. Increasing industry's influence on agricultural production and adjusting it to the organizational structure and qualitative requirements of the meat processing industry is a long-range process

rather than simply changing the contracting office. The already initiated efforts to integrate the industry with the agriculture are intended to serve primarily to increase agricultural production, to decrease losses both in farming and in distribution and to decrease the cost of raw materials. These objectives can be achieved only together with the farmers on the basis of mutual cooperation.

Contractual arrangements are just one way to organize the market for agricultural products. The principle of production to fulfill an order has been well known to farmers for years although the character and the role of contractual relationships was changing in implementation of agricultural policies. The new principles, and the proposals already prepared, primarily stress the production functions of the contracting approach but they also include guarantees of prices higher than the, so-called, open market prices and assure the delivery of means of production. The quantity of available means of production depends at this time directly on the capability of the national economy and it is, as is well known, still limited. This is the answer to the proposal to increase the quantity of fodder and coal allocations in exchange for contracted hogs.

Contractual arrangements support the economic system through binding more closely the natural capabilities of individual farms with definite requirements of the industry. The effects of this closer relationship, however, will be decided by the productive capacity of farms and profitability of production. The contractual arrangements for agricultural products are common for the whole agriculture, including the socialized sector. They correspond to the role of government orders for industry.

#### Fodder--the Anti-Import Production

Jan Kozlowski from Bydgoszcz: It is necessary to assure the stability of state policies regarding the supply of fodder.

Jan Gnuś from Poznań: Changing the exchange ratio of concentrate to delivered grain would make possible to increase the supply of grain.

Dr J. Kozioł: There is only one way to assure a steady supply of fodder: increased production. This applies to all kinds of fodder and above all to the grain. The demand for grain--for food, for fodder and for seed--is estimated at 28 million tons annually. Last year's harvest was about 21 million tons. This is the magnitude of the task and of today's problems. Such a gap, with the economy as it is, cannot be bridged with imports. But the supply of concentrates and fodder depend directly on imports of high protein fodder and grain. The availability of grain from the previous harvest is also less than anticipated.

The supply of industrial fodder last year was about half of what it was in 1980. In this difficult situation, we are planning to tie the sale of fodder to the production of meat and milk. The commitments to the farmers who sold grain in exchange for fodder must be kept. This kind of sale, however, will be difficult to continue in the next economic year.

Availability of fodder determines the level of animal production. The current production of poultry amounts only to 20 percent of production not long ago. There are signs that the decrease of the number of hogs has been stopped but a large and unfavorable change in the composition of hog population has taken place. The results will be visible already in the second half of this year. The estimate of milk production is favorable, the decrease in the number of cattle is relatively small. Adjustment of animal production to the availability of fodder is a fact. It must be anticipated that the production of meat will be temporarily lower although there should be enough meat to satisfy the demand based on rationing.

This is the current situation and it is too early to forecast this year harvest. One thing is certain: starting this season vegetable production must be intensified. This is the basis for the agricultural development program until 1990. The Sejm is now working on that program.

8801  
CSO: 2600/940

POLAND

BRIEFS

GOLD PRICES UP--The office for prices has announced that the official price paid for gold scrap, coins and bars by purchasing agencies will be raised by 50 percent as of 16 May. The rise is designed to increase the purchases of gold which is needed, above all, for wedding rings. The newlyweds have had difficulties with obtaining rings. This was caused mainly by the halting of gold imports. [Text] [PAP Warsaw DAILY NEWS in English No 94, 13 May 83 p 15]

CSO: 2020/32

PROBLEMS WITH MAINTENANCE, REPAIR OF INDUSTRIAL EQUIPMENT

Bucharest SCINTEIA in Romanian 5 May 83 pp 1, 3

[Interview with Stefan Oprea, inspector general at the Inspectorate for the Control of the Management of Fixed Assets, by Corneliu Carlan]

[Text] We now have an impressive, modern technical heritage, created through a large effort of investments allocated from the national income. During the last decade alone, the fixed assets of state socialist units have increased more than 2.8 times, to reach a value of over 2000 billion lei. It is therefore natural for this great wealth, which incorporates the labor of our entire nation, to be used and maintained as judiciously as possible, so as to assure a powerful growth in production and economic efficiency, in the interest of steadfastly achieving the country's socioeconomic development and raising the standard of living.

It is well known that the Executive Political Committee of the Central Committee of the RCP recently examined a particularly important aspect of the management of fixed assets, namely, the repair and maintenance of machinery, tooling, and technical installations, establishing a number of measures for improving this activity. In connection with some of the most significant problems that are arising in this area, and the actions that are to be undertaken by specialized agencies to strengthen order and discipline in the maintenance, repair, and utilization of machines, tooling, and technical installations, we spoke with Stefan Oprea, inspector general at the Inspectorate for the Control of the Management of Fixed Assets.

[Question] Generally speaking, what are the requirements that the management of fixed assets must fulfill in each enterprise?

[Answer] Experience has shown that correct utilization and maintenance are essential for the long term proper operation of each machine, tool, or installation; this implies that each worker must comply strictly with the technical instructions for operating these units. The analyses conducted by our inspection units in enterprises, have shown that in the great majority of cases, accidental mechanical stoppages were caused by violations of the operating instructions written on the technical card attached to each fixed asset. Thus, premature wear of machine parts occurs when the machine is over used, loaded beyond its normal operating levels, when through neglect, waste materials enter the active elements of the machine, or when moving parts are

not lubricated in time. Usually, this immediately reduces operating conditions at the expense of product quality and labor productivity, ultimately resulting in machine breakdown. It must consequently be understood that the worker for whom the machine is a working tool, will be the first one to be harmed in that he will no longer be able to fulfill his production tasks. But the losses are even greater at the level of the economy. For instance, it has been calculated that one minute of unplanned stoppage on the part of all production fixed assets in the national economy, is equivalent to a production loss of about 3 million lei. Actually, stoppages to repair fixed assets--most of which are highly complex units--that are defective due to negligence or poor maintenance, are not of the order of minutes, but of hours, days, and even weeks. And not to be overlooked, is the financial aspect of the problem. Labor and material costs for replacing defective machines or installations in operation are particularly high and heavily load the income and expense budgets of the respective units.

[Question] Could you please refer to a few concrete examples?

[Answer] I will mention two situations in metallurgical units. Last year, at the Galati Steel Combine, more than 1120 pouring and molten metal carriers, as well as four bridge cranes were damaged through incorrect handling or overloading. Consequences? Irregular technical process flows, which in turn had negative influences on the production capabilities of some sectors. Also last year, at the Tulcea Metallurgical Combine, as a result of failures to follow technical operating instructions on the part of workers, 11 alloy furnaces were stopped for more than 2850 hours for repairs. Hours which obviously produced nothing but losses. Moreover, these events occurred in full view of foremen and technical staff members whose duty it was to prevent such violations of production discipline. I have given only two examples, to be sure, but undesirable situations of this kind have in fact been encountered quite frequently in various enterprises by our inspection units.

[Question] Fundamentally, the enterprises have an interest in the proper operation of their equipment. How then can we explain the violations of technical discipline which you have mentioned?

[Answer] It is first of all a matter of outlook on the part of all levels of management staffs in enterprises, and of the manner in which they concern themselves with improving the qualification of operating personnel, and with strengthening order and discipline at every work station. On the other hand, it is no less true that time is becoming increasingly valuable. But forcing a machine or tool to operate beyond its power under the justification of obtaining more production, failing to properly organize the maintenance and repair of technical equipment, and allowing convenience and lack of discipline to overcome technical regulations, is equivalent to a sentence of premature failure for fixed assets in which have been invested work, time, and money from the national wealth. Clearly, when we enter an enterprise and observe violations of the legislation regarding the management of fixed assets, our first concern is to analyze and discuss with responsible parties in the unit, the measures that must be taken to most rapidly eliminate the shortcomings, if possible even during the inspection. But if the violations are repeated with consequent prejudices to the interests of the economy, we firmly enforce the law and bring sanctions against those who are guilty of violating it.

[Question] Of course, no matter how well it is used and maintained, after a certain amount of time and use every fixed asset must be inspected, repaired, and readjusted to its initial specifications. One of the questions raised during the meeting of the Executive Political Committee is indeed the rigorous compliance with repair programs. What in your opinion has caused the occurrence of shortcomings in this respect?

[Answer] I believe that it all begins with the planning of technical inspections and repairs for all fixed assets. By law, each machine, piece of equipment, or installation must be correctly included in the annual repairs plan, in accordance with technical regulations. I have used the word "correctly" because we have observed that in many cases, equipment is either omitted from the repairs plan, or does not comply with the repair schedule stipulated in its instructions. At the Resita Steel Combine for instance, 366 items of tooling, whose deadlines were due for this category of attention, were not included in the capital equipment repairs plan for this year. Or in an even more significant case, of 39 enterprises in the food industry inspected by our units during the first quarter of this year, 19 had not even formulated the annual repairs plan. Most often, in these situations, the enterprises argue either that the equipment which should be repaired is needed for technical processes to achieve the planned production, or that they do not have the capability to perform the volume of necessary repairs. Yet, it has been demonstrated that the stretching of equipment operation beyond its standard duration can have consequences whose importance on production are not even suspected. It is entirely wrong to believe that inspections are repairs must be made only when the machines have failed or have reached their limit. Actually, repairs and maintenance have a preventive nature, seeking as they do to forestall accidental failures, and eliminate possible breakdowns during operation. Management staffs and specialists in enterprises must not forget that technical resources are not intended solely for the production of the moment, but that they still need to be used for a long time to come. It is perhaps possible to fulfill this month's or this quarter's production plan by violating repair schedules today. But will the machine that is "pushed" today operate with the same yield later?

[Question] But what if there are no capabilities for performing repairs?

[Answer] It is true that in some units, the rapid rate of development of production capabilities has created a gap in assuring all the conditions necessary for all technical inspections and repairs. But this reason cannot be invoked forever; ministries and industrial centrals must urgently begin to properly organize this activity, supplying the work force and technical resources necessary in each enterprise.

[Question] What did the inspection units observe? Are the repair plans, even with the shortcomings indicated, respected in practice?

[Answer] In most cases, yes. But as was pointed out during the recent meeting of the Executive Political Committee, only 85.2 percent of the value plan for capital repairs on tooling and installations was completed throughout the economy during last year. The major cause is the inadequate preparation

of repairs, meaning that spare parts were not provided in time, and that the equipment was not disassembled, repaired, and reassembled according to technical instructions. Spare parts are at times missing either because internal measures to manufacture them in-plant were not taken in time by enterprises, or because there was not sufficient concern to order them from suppliers. And in other situations, the responsible groups did not take all measures to foresee and require the timely fabrication of parts, subassemblies, or supplies from specialized units. One example is illustrative of the manner in which some economic units or responsible groups correlate the provisions of the repairs plan with the preparation of technical and material conditions suitable for properly executing the plan: up to 15 April of this year, the Ministry of Electric Power had planned to place 12 generators under capital repairs; but in practice, repairs were started on only two of the units. On the other hand, they worked on four generators whose repairs were not scheduled until much later; and another generator was repaired during the first quarter of the year, even though that work was to have been done in August-September. This means either that the repair plan was not completed in an appropriate manner, or that the necessary measures and conditions were not assured for complying with the plan--which naturally must guarantee the normal operation of the generators.

[Question] In the light of the tasks established by the Executive Political Committee, what measures is the inspectorate proposing for strengthening order and discipline in the utilization, maintenance and repair of machinery and tooling?

[Answer] Of course, the existence of shortcomings in the repair and maintenance of fixed assets shows that the activity of our inspectorate is also subject to weaknesses. That is why we have a duty to improve and better organize our activity, so as to respond promptly and under the best conditions to the tasks assigned to us in the application of measures established by the party leadership. As part of comprehensive inspection actions, we will place particular stress on utilization, maintenance, and repair activities, and as part of topical inspections, we will increase the number of checks regarding the planning, organization, preparation, and quality execution of technical verifications and repairs on time, particularly in large units whose production is of special economic importance. Particular attention will be devoted to the implementation of the task outlined by the party leadership, which is that machinery and tooling be modernized to the greatest possible extent at the time of capital repairs, so as to obtain a qualitatively and quantitatively superior production.

11,023  
CSO: 2700/212

YUGOSLAVIA

REVISED LAW ON FOREIGN EXCHANGE

Belgrade SLUZBENI LIST SFRJ in Serbo-Croatian No 23, 13 May 83 pp 501-533

[Revised text approved by the Legislative and Legal Commission of the Chamber of Republics and Provinces of the SFRY Assembly in a session on 16 February 1983 and signed by its chairman Marjan Markovic: "Law on Foreign Exchange Transactions and Credit Relations With Foreign Countries (Revised Text)"]

[Text] On the basis of Article 89 of the Law on Amendments and Supplements to the Law on Foreign Exchange Transactions and Credit Relations With Foreign Countries (SLUZBENI LIST SFRJ, No 77, 1982), the Legislative and Legal Commission of the Chamber of Republics and Provinces of the SFRY Assembly, in a session on 16 February 1983, approved the revised text of the Law on Foreign Exchange Transactions and Credit Relations With Foreign Countries.

The revised text of the Law on Foreign Exchange Transactions and Credit Relations With Foreign Countries encompasses the following: the Law on Foreign Exchange Transactions and Credit Relations With Foreign Countries (SLUZBENI LIST SFRJ, No 15, 1977), the Law Amending the Law on Foreign Exchange Transactions and Credit Relations With Foreign Countries (SLUZBENI LIST SFRJ, No 61, 1982) and the Law on Amendments and Supplements to the Law on Foreign Exchange Transactions and Credit Relations With Foreign Countries (SLUZBENI LIST SFRJ, No 77, 1982), in which the dates when the respective laws take effect are indicated.

I. Basic Provisions

Article 1

The earning, acquisition, pooling and disposition of foreign exchange, payments and collections in transactions with foreign countries, credit relations with foreign countries, and other relations of domestic persons with foreign legal and natural persons or between domestic public legal and natural persons which come about in the domain of the foreign exchange system shall be governed by the provisions of this law and by the provisions of social compacts and self-management accords concluded in conformity with the principles set forth in this law.

## Article 2

Relations in the domain of the foreign exchange system are an integral part of relations in social reproduction founded on self-management, a system in which the workers themselves, associated with one another on the basis of their labor, manage assets which are the property of the society as a whole.

## Article 3

The workers in the basic organization of associated labor shall exercise the basic rights and discharge the basic obligations in the foreign exchange system.

In the domain of foreign economic relations the workers shall have the same socioeconomic status as in the overall relations of social reproduction.

In the relations of realization, disposition and pooling of foreign exchange to make payments abroad the workers shall basically have the same rights, obligations and responsibilities as in the relations of realization, disposition and pooling of other resources of society.

The basic organization of associated labor shall be the basis for the pooling of labor and assets and the basis of social planning in the domain of the foreign exchange system.

Basic and other organizations of associated labor shall in their self-management accords and other general self-management acts regulate their mutual relations and other relations of common interest and shall bring into alignment their common needs and interests relative to the exercise of rights and discharge of obligations in the foreign exchange system, in accordance with law and social compacts.

## Article 4

Joint foreign exchange policy is a component of the country's joint economic policy and shall be conducted within the framework of the unified foreign exchange system and the unified Yugoslav market.

The conclusion of self-management accords by basic and other organizations of associated labor and the conclusion of social compacts and agreements by the republics and autonomous provinces shall be the basis for adoption and implementation of joint foreign exchange policy.

## Article 5

Foreign exchange realized by basic and other organizations of associated labor represents the results of the labor of the workers in basic organizations of associated labor and of the labor of the entire society and shall be used exclusively to make payments in international transactions.

Foreign exchange realized by basic and other organizations of associated labor as claims in a foreign currency and means of payment abroad shall constitute a specific monetary expression of the resources of society.

Foreign exchange shall belong to the basic organizations of associated labor which participated in realizing it.

Organizations of associated labor which have realized foreign exchange or have participated in its realization shall freely and independently decide whether to keep the foreign exchange which they possess in a foreign exchange account in conformity with the provisions of this law or convert it to dinars.

The organizations of associated labor referred to in Paragraph 3 of this article which have converted foreign exchange to dinars shall have priority in the purchase of foreign exchange, under the conditions set forth in this law.

#### Article 6

Foreign exchange is realized by doing business with foreign countries and through other relations with foreign countries.

Foreign exchange which has been realized shall be disposed of in conformity with the provisions of this law.

Foreign exchange may be purchased for dinars on the foreign exchange market in conformity with the provisions of this law.

The disposition of purchased foreign exchange shall conform to the basis on which the foreign exchange was purchased.

Restrictions on the disposition of foreign exchange may be prescribed by federal law or by regulations based on federal law.

#### Article 7

Foreign exchange which has been realized shall be used to meet obligations come due, to pay for needs in reproduction of the basic and other organizations of associated labor which have realized it or participated in its realization, the needs in reproduction of organizations of associated labor which do not realize foreign exchange by doing business with foreign countries or which do not realize it in sufficient amount, and the needs in reproduction of organizations of associated labor which have been prohibited from exporting or restricted in exporting by acts of federal bodies, and to meet the needs of government and social services as specified by this law, regulations issued on the basis of federal law, and a self-management accord in conformity with this law.

#### Article 8

Basic and other organizations of associated labor may keep foreign exchange realized in conformity with the provisions of this law in a foreign exchange account exclusively in an authorized bank.

The foreign exchange referred to in Paragraph 1 of this article may be used to make payments abroad or to invest in wholly or partially owned enterprises abroad, or may be sold to an authorized bank.

Payments abroad and investments in wholly or partially owned enterprises abroad may be made independently or in association with other basic organizations of associated labor and other organizations of associated labor.

Basic and other organizations of associated labor may pool foreign exchange to meet stated needs in foreign exchange on the basis of a self-management accord on the pooling of labor and capital or on the basis of a contract on long-term industrial cooperation, joint ventures abroad or business-technical collaboration.

The accounts referred to in Paragraph 1 of this article shall be denominated in foreign currencies or in dinars.

The Federal Executive Council, upon a proposal of the National Bank of Yugoslavia, shall set forth the conditions and manner in which the accounts referred to in Paragraph 1 of this article shall be nominated in dinars.

#### Article 9

Foreign exchange shall be purchased and sold on the unified foreign exchange market.

#### Article 10

The policy of stimulating the inflow of foreign exchange from exports of goods and services and other forms of foreign exchange inflow is an integral part of joint economic policy, policy governing economic relations with foreign countries, and joint foreign exchange policy.

#### Article 11

Within the limits of their respective rights and duties, basic and other organizations of associated labor, their communities and other forms whereby organizations of associated labor enter into association, and the republics and autonomous provinces shall bear joint responsibility with the Federation for the status of Yugoslavia's balance of payments and balance of foreign exchange and for Yugoslavia's position in international economic relations.

#### Article 12

The planning of foreign economic relations is an integral part of the overall system of self-management social planning. Foreign economic relations shall be planned in order to ensure the conditions and prerequisites for more successful inclusion of associated labor in the international division of labor, to strengthen the export orientation of planning entities and the country's economy as a whole, and to establish long-term economic ties among organizations of associated labor related to export transactions.

The workers, as planners, in the framework of development plans of basic and other organizations of associated labor, self-managing communities of interest and other self-managing organizations and communities, and also in the framework of plans for economic development of sociopolitical communities, shall plan foreign economic relations. Basic and other organizations of associated labor shall mutually reconcile their respective plans and bring their plans into conformity with those of other planning entities with which they have ties in their operation, production and income and they shall also reconcile their plans in preparations for conclusion of the agreement on the bases of the plan of the sociopolitical community.

Joint economic policy in which the joint exchange policy set forth in planning documents of the SFRY Assembly is an integral part, shall constitute the basis for reconciliation of interests and mutual reconciliation through self-management of the essential elements of the plans of planning entities.

Organizations of associated labor and other self-managing organizations and communities shall also conduct their mutual relations and reconcile their interests in planning foreign economic relations within self-managing communities of interest for foreign economic relations as well as in economic chambers and general associations, in conformity with the roles of those respective institutions.

Before reconciling their plans within self-managing communities of interest in the republics and autonomous provinces organizations of associated labor must bring their plans into conformity with the plans of those organizations of associated labor with which they have concluded self-management accords on the pooling of labor and capital for purposes of joint production and realization of inflow of foreign exchange or concerning the pooling of the exchange realized.

Plans shall be mutually reconciled within the framework of self-managing communities of interest of the republics and autonomous provinces so that there is no obstacle to the pooling of labor and capital over the territory of the country.

Within the Yugoslav Community of Interest for Foreign Economic Relations organizations of associated labor and other self-managing organizations and communities which have ties in operation, production and income and are dependent on one another on the unified Yugoslav market shall reconcile the most important elements of foreign economic relations contained in their plans with one another. These reconciled elements shall constitute an integral part of the basis for planning foreign economic relations within the republics and autonomous provinces.

Self-managing communities of interest for foreign economic relations in the republics and autonomous provinces and the Yugoslav Community of Interest for Foreign Economic Relations shall monitor fulfillment of plans with respect to foreign economic relations as referred to in Paragraphs 2 and 7 of this article and within their respective rights and duties shall in good time, both individually and jointly, take the steps necessary to guarantee fulfillment of those plans.

Organizations of associated labor in enacting their development plans and republics and autonomous provinces in setting forth economic policy shall within their respective rights and duties guide economic development so as to facilitate the most optimum inclusion of associated labor in the international division of labor, in conformity with the stated joint development policy and joint exchange policy, mindful of their respective contribution and obligations to achieving the planned proportions in Yugoslavia's balance of payments and exchange balance.

#### Article 13

The activity of republic and provincial self-managing communities of interest for foreign economic relations and of the Yugoslav Community of Interest for Foreign Economic Relations is hereby proclaimed to be of particular public interest.

#### Article 14

It is prohibited for basic and other organizations of associated labor and other public legal persons to pool foreign exchange and to enter into association or for organizations of associated labor and government agencies to conduct any other activity or perform any other action in foreign exchange transactions and credit relations with foreign countries with the purpose of hindering the free movement and pooling of labor and assets and the free exchange of goods and services or of creating a monopoly position on the unified Yugoslav market so as to achieve material and other advantages which are not based on work, which create unequal relations in the conduct of business or which violate other economic and self-management relations as set forth in the constitution.

In their earning and use of foreign exchange basic and other organizations of associated labor and other public legal persons must act in conformity with the joint economic policy which has been adopted, must not disrupt stability on the market, and must not inflict injury on other participants on the market, consumers or the public community as a whole.

#### Article 15

In the context of this law the term "foreign exchange" refers to claims, whatever their basis, which are denominated in a foreign currency, regardless of the manner of disposition.

The term "foreign exchange" also covers all types of effective foreign currency, except for gold coins.

#### Article 16

In the context of this law the term "domestic persons" refers to basic and other organizations of associated labor, business communities, banking organizations, cooperatives, chambers and other general associations, self-managing communities of interest, and other self-managing organizations and communities,

sociopolitical communities and their agencies and organizations, sociopolitical organizations and other civic organizations, and other legal persons which have their domicile in Yugoslavia, as well as natural persons resident in Yugoslavia.

In the context of this law the term "foreign persons" refers to all other legal and natural persons.

#### Article 17

In the context of this law the term "authorized bank" refers to a banking organization which has received authorization to handle payments traffic and credit transactions with foreign countries (hereafter referred to as "fully authorized bank" and a banking organization which has received authorization to handle transactions involving foreign exchange and foreign currencies in Yugoslavia (hereafter referred to as "limited authorized bank").

#### Article 18

The Federal Directorate for Commerce in and Reserves of Special-Purpose Products shall in its foreign exchange transactions have the same rights and obligations granted organizations of associated labor under this law, unless this or other federal law states otherwise.

### II. Joint Foreign Exchange Policy, Yugoslavia's Balance of Payments and Balance of Foreign Exchange, and the Payments-Balance and Exchange-Balance Position of the Republics and Autonomous Provinces

#### 1. Joint Foreign Exchange Policy

#### Article 19

Joint foreign exchange policy shall specifically cover the following: the policy of promoting and encouraging exports of goods and services and other forms of economic relations with foreign countries; import policy; the policy of protecting domestic production; the policy governing the rate of exchange of the dinar; the policy governing foreign exchange reserves; the policy governing credit relations with foreign countries; the policy governing alignment of relations among the republic and provincial self-managing communities of interest for foreign economic relations, and the policy governing payments-balance restrictions.

Joint foreign exchange policy shall be adopted by the SFRY Assembly for each year at the same time when it adopts the country's joint economic policy for that year, in accordance with Yugoslavia's medium-term plan.

The document containing joint foreign exchange policy shall also include the framework and guidelines for enactment of measures to implement it.

## Article 20

The Federal Executive Council, the competent bodies of the republics, the competent bodies of the autonomous provinces, and self-managing communities of interest for foreign economic relations shall adopt their own respective package programs for implementation of joint foreign exchange policy.

The Federal Executive Council shall monitor the implementation of joint foreign exchange policy and report to the SFRY Assembly as necessary, but no less frequently than semiannually.

## Article 21

In the implementation of joint foreign exchange policy the Federation, the republics and the autonomous provinces shall take steps by mutual agreement to promote economic relations with foreign countries and specifically to stimulate the inflow of foreign exchange from exports of goods and services and other ways of augmenting the inflow of foreign exchange and of reducing the outflow of foreign exchange, in accordance with criteria and standards of measurement jointly agreed on.

## Article 22

Proceeding on the principle that exports shall be unrestricted, if exceptionally and temporarily an act of the SFRY Assembly or act of the Federal Executive Council issued on the basis of an act of the SFRY Assembly prohibits or restricts the exports of certain goods and the rendering of certain services to foreign persons and thereby violates the equality of organizations of associated labor in the realization of foreign exchange, that act shall at the same time furnish compensation by setting forth the right to purchase exchange on the foreign exchange market and shall state the conditions and sources of the foreign exchange for obtaining that compensation.

The right to compensation because of a prohibition or restriction of exports shall be exercised by the basic organization of associated labor only for those quantities of goods or that volume of services for which it has not assumed obligations to supply the domestic market through self-management accords, agreements and contracts regulating the relations of lasting cooperation.

The compensation referred to in Paragraph 1 of this article shall provide foreign exchange for the agreed needs in reproduction of basic organizations of associated labor whose exporting has been prohibited or restricted, depending on the size of the inflow of foreign exchange which they would realize if their exporting had not been prohibited or restricted, according to the uniform criteria stated in Article 68, Paragraph 2, of this law.

## 2. Yugoslavia's Balance of Payments and Foreign Exchange Balance

### Article 23

Yugoslavia shall have one balance of payments, the balance of all financial and other economic transactions between domestic and foreign persons.

Yugoslavia shall have one foreign exchange balance, the balance of the inflow and outflow of foreign exchange resulting from all financial and other economic transactions between domestic and foreign persons.

The projection of Yugoslavia's balance of payments and the projection of Yugoslavia's exchange balance shall be integral parts of joint foreign exchange policy within the framework of the country's joint economic policy.

The projection of Yugoslavia's balance of payments and the projection of Yugoslavia's exchange balance shall be based on Yugoslavia's medium-term plan.

### Article 24

At the same time when it enacts joint foreign exchange policy the SFRY Assembly shall also adopt the projection of Yugoslavia's balance of payments and the projection of Yugoslavia's exchange balance, which shall be proposed by the Federal Executive Council within the framework of the country's joint economic policy.

The projection of Yugoslavia's balance of payments and the projection of Yugoslavia's exchange balance shall be enacted to cover a period of at least 1 year.

The SFRY Assembly shall examine fulfillment of the projection of Yugoslavia's balance of payments and the projection of Yugoslavia's exchange balance together with the report submitted by the Federal Executive Council on implementation of joint economic policy.

The Federal Executive Council shall propose the projection of Yugoslavia's balance of payments and the projection of Yugoslavia's exchange balance to the SFRY Assembly simultaneously with the resolution on implementing Yugoslavia's medium-term plan in the coming year.

### Article 25

The projection of Yugoslavia's balance of payments shall cover the following: the value of exports of goods and services; the outflow of foreign exchange on the basis of invisibles; the volume of foreign indebtedness; the status of the debt at the end of the year for which the projection of the balance of payments is being enacted and the amount of principal and interest coming due to be paid abroad in that year; the volume of foreign exchange credit to be extended abroad; the amount of principal and interest coming due for payment on credits extended abroad; the surplus or deficit in Yugoslavia's balance of payments; coverage of the deficit; and the level of permanent foreign exchange reserves and current foreign exchange reserves.

The projection of Yugoslavia's exchange balance shall cover the inflow and outflow of foreign exchange for each of the items in Yugoslavia's balance of payments.

The projection of Yugoslavia's balance of payments and the projection of Yugoslavia's exchange balance shall also cover the Federation's foreign exchange revenues and foreign exchange expenditures used for establishing the volume of foreign exchange and for assigning the right to purchase exchange to meet the needs of the Yugoslav People's Army and to perform the tasks of federal agencies in the domain of national defense, to provide for commodity reserves at the federal level, to meet the needs of federal agencies, to cover the rights and duties of the Federation and the Federal Fund for Credit Financing of the Accelerated Development of the Economically Underdeveloped Republics and Autonomous Provinces in conformity with Yugoslavia's medium-term plan, and to meet other needs as set forth in Articles 169 and 234 of this law.

On the basis of consent of the competent bodies of the republics and provinces, the Federal Executive Council shall prescribe the methodology and criteria for ascertainment and the methodology for monitoring fulfillment of the projection of Yugoslavia's balance of payments and the projection of Yugoslavia's exchange balance.

#### Article 26

The volume and other conditions pertaining to imports and foreign indebtedness and to the contracting of other payment obligations abroad, which shall be envisaged by the projection of Yugoslavia's balance of payments and the projection of Yugoslavia's exchange balance, shall be reconciled with achievement of the subsequent inflow of foreign exchange on the basis of those imports and other foreign exchange receipts and with the envisaged size of the surplus or deficit in Yugoslavia's balance of payments and exchange balance.

#### Article 27

The volume of foreign indebtedness and the volume of credit to be extended abroad shall be set forth for the medium-term planning period in the social plan of Yugoslavia.

The volume of foreign indebtedness and the volume of credit to be extended abroad shall be fixed for each year in Yugoslavia's balance of payments and exchange balance and must be reconciled with the joint policy governing foreign economic relations, the level of the country's indebtedness and the capabilities of individual entities and the country as a whole to promptly discharge obligations arising out of credits.

An individual entity may contract indebtedness abroad if an authorized bank has ascertained that it is able to repay the credit in foreign exchange and dinars and if the discharge of obligations under the credit is covered by the authorized bank's credit-guarantee potential.

The Federal Executive Council and National Bank of Yugoslavia shall take steps to guarantee that the volume of foreign indebtedness conforms to the provisions of Paragraphs 1 and 2 of this article.

Borrowing abroad and extension of credit abroad shall be guided toward the aim of achieving a larger total inflow of foreign exchange, guaranteeing the necessary liquidity in international payments, and fulfillment of Yugoslavia's balance of payments and exchange balance.

### 3. The Payments-Balance and Exchange-Balance Position of the Republics and Autonomous Provinces in Yugoslavia's Unified Balance of Payments and Foreign Exchange Balance

#### Article 28

In order to achieve the goals and perform the tasks of their respective plans and Yugoslavia's balance of payments and exchange balance the republics and autonomous provinces shall prepare their own projections of payments-balance and exchange-balance positions.

The projections of the payments-balance and exchange-balance positions of the republics and autonomous provinces shall be planning instruments in the domain of foreign economic relations and shall contain planning goals and tasks which shall reflect the role and responsibility of the republics and autonomous provinces in shaping, conducting and accomplishing the policy governing foreign economic relations and fulfilling Yugoslavia's balance of payments and exchange balance.

The projections of the payments-balance and exchange-balance positions of the republics and autonomous provinces shall be based on the essential elements of the plans of basic organizations of associated labor located within the respective republics and autonomous provinces, on the relations established by organizations of associated labor on the unified Yugoslav market, and on the goals and tasks set forth in the projection of Yugoslavia's balance of payments and exchange balance and shall contain the elements of foreign economic relations from the plans of organizations of associated labor and other self-managing organizations and communities which have mutual ties pertaining to their operation, production and income on the unified Yugoslav market, and shall constitute the basis for continuous monitoring and conduct of economic policy in the republic and autonomous province with respect to implementation of joint economic policy and Yugoslavia's balance of payments and exchange balance.

The projections of the payments-balance and exchange-balance positions of the republics and autonomous provinces may not alter relations established among organizations of associated labor on the unified Yugoslav market which have a share in exports. The projections of the payments-balance and exchange-balance positions of the republics and autonomous provinces shall be adapted to essential changes that occur on the unified Yugoslav market in relations among organizations of associated labor taking part in exports in order to achieve Yugoslavia's balance of payments and exchange balance.

On the basis of monitoring achievement of the payments-balance and exchange-balance positions, the republics and autonomous provinces shall take the steps necessary to achieve Yugoslavia's balance of payments and exchange balance and joint economic policy, especially with respect to development policy, credit and monetary policy, the policy governing taxes and contributions, price policy, and in creating more favorable conditions for production and use of domestic raw materials on behalf of optimum import substitution, in organizing establishment of ties within associated labor, in stimulating organizations of associated labor to enter into association, and measures in the domain of joint foreign exchange policy.

#### Article 29

The Federation, the republics and the autonomous provinces shall be responsible within the limits of their respective rights and duties for achievement of Yugoslavia's balance of payments and exchange balance and shall bear a duty to take timely steps to achieve plans governing foreign economic relations of organizations of associated labor and thereby proportions in Yugoslavia's payments balance and exchange balance for the current year, and to take steps to suppress manifestations of exclusiveness or monopoly behavior, on behalf of establishment of broader ties among organizations of associated labor on the unified Yugoslav market, augmentation of exports and more optimum imports.

#### Article 30

The measures taken in the republic, autonomous province and the Federation to achieve the projection of Yugoslavia's balance of payments and the projection of Yugoslavia's exchange balance and to achieve the projections of the payments-balance positions and projections of the exchange-balance positions of the republics and autonomous provinces must not violate the unity of the Yugoslav market.

#### Article 31

Republic and provincial self-managing communities of interest for foreign economic relations and the Yugoslav Community of Interest for Foreign Economic Relations shall keep abreast of fulfillment of the projections of the payments-balance positions and projections of the exchange-balance positions of the republics and autonomous provinces, shall inform the competent authorities about implementation and achievement of those projections, shall give timely warning of deviations from them, and, within the limits of their rights and duties, shall take the measures necessary, both individually and jointly, to guarantee fulfillment of the projections.

#### Article 32

Should there be a deviation in fulfillment of the projections of the payments-balance position and the projections of the exchange-balance position of the republic or the autonomous province, the competent body of that republic or autonomous province must take appropriate measures to reestablish the relationships set forth in those projections.

### Article 33

By virtue of their participation in the implementation of this law the Yugoslav Economic Chamber and the economic chambers of the republics and autonomous provinces shall contribute to achievement of the planned proportions in Yugoslavia's balance of payments and the proportions in Yugoslavia's exchange balance and of joint foreign exchange policy, which they shall do in the following specific ways:

- 1) they shall take initiatives so that organizations of associated labor form links and associations in forms and directions oriented toward the earning, disposition and pooling of foreign exchange and its rational use in accordance with the provisions of this law, and they shall extend organizational and technical aid to organizations of associated labor so that these goals are achieved;
- 2) they shall collaborate with communities of interest for foreign economic relations and shall extend them aid in their organizational efforts and ongoing activities;
- 3) they shall take the initiative so that individual issues are raised and resolved and shall submit opinions and proposals in connection with the adoption and implementation of joint foreign exchange policy and the enactment of export and import programs and measures, the projection of the balance of payments and exchange balance, the policy governing the rate of exchange of the dinar and rate-of-exchange mechanisms, conditions governing exports and imports, monetary policy, payments-balance restrictions, and indebtedness abroad.

### III. Self-Managing Communities of Interest for Foreign Economic Relations

#### Article 34

Self-managing communities of interest for foreign economic relations (hereafter referred to as the "republic and provincial communities") shall be established by law in the republic and autonomous province in order to perform the tasks and handle the business specified by this law.

In each republic and autonomous province basic and other organizations of associated labor, self-managing communities of interest and other self-managing organizations and communities, banking organizations, cooperatives and other public legal persons, aside from sociopolitical communities, shall be required to affiliate themselves with the republic or provincial community if they earn foreign exchange or use foreign exchange in the conduct of their business.

#### Article 35

The republic and provincial communities shall participate directly in the preparation of acts setting forth the policy and plans governing foreign economic relations and in drafting projections of the payments-balance position and projections of the exchange-balance position of the republic or autonomous

province and, in the implementation of those acts, shall, within the limits of their respective competence, make their own decisions on those matters envisaged by law, shall participate in the conclusion of self-management accords and social compacts, and shall handle other business in accordance with the provisions of this law.

The republics and autonomous provinces shall in laws set forth in more detail the activity of the republic and provincial communities.

#### Article 36

The republics and autonomous provinces shall establish by law and organizational principles and other matters related to the activity of the republic and provincial communities.

The republics and autonomous provinces shall conclude an agreement concerning the principles to be followed in the organization of the republic and provincial communities and in the conduct of their business.

#### Article 37

The governing bodies of the republic or provincial community shall be elected from among the members of those communities in conformity with the principle of delegation.

#### Article 38

The Yugoslav Community of Interest for Foreign Economic Relations (hereafter referred to as the "Yugoslav Community") shall be established.

The republic and provincial communities shall be members of the Yugoslav Community of Interest for Foreign Economic Relations.

#### Article 39

In the Yugoslav Community the members of that community shall perform the following functions:

- 1) they shall agree on elements of plans governing foreign economic relations and plans governing the inflow and outflow of foreign exchange of particular importance to Yugoslavia's exchange balance and balance of payments and to the unity of the Yugoslav market;
- 2) they shall reconcile respective views in the procedure of preparing the plans governing foreign economic relations of the republics and autonomous provinces and shall participate in preparing the projection of Yugoslavia's balance of payments;
- 3) they shall determine the manner in which the plans governing foreign economic relations and plans governing inflow and outflow of foreign exchange shall be fulfilled;

- 4) they shall give opinions concerning a proposal to regulate imports and exports and on measures to be taken to fulfill the plans governing foreign economic relations;
- 5) they shall submit an opinion to the Federal Executive Council concerning the proposal for measures to be enacted to implement the policy governing credit relations with foreign countries and joint foreign exchange policy;
- 6) they shall encourage the self-management linkage and organization of organizations of associated labor on the unified Yugoslav market for the purpose of production for export and for the rendering of services to foreign persons.
- 7) and they shall handle other business as set forth in federal law.

The activity of the Yugoslav Community shall be set forth in more detail in its bylaws.

#### Article 40

The assembly and executive board shall be the bodies of the Yugoslav Community and the president its officer.

The governing body of the Yugoslav Community shall be an assembly consisting of 10 delegates elected from among the members of each republic and provincial community.

In addition to the delegates referred to in Paragraph 2 of this article, a representative of the Federal Executive Council shall also participate in the proceedings of the Assembly of the Yugoslav Community.

The Executive Board of the Yugoslav Community shall have eight members, one elected from each republic or provincial delegation in the Community. The election of the members of the Executive Board shall be confirmed by the Assembly of the Yugoslav Community.

The president of the Yugoslav Community shall be named by the Assembly of the Yugoslav Community with the consent of the Federal Executive Council.

#### Article 41

The Yugoslav Community shall have bylaws.

The bylaws of the Yugoslav Community shall be adopted by the Assembly of the Yugoslav Community.

The bylaws of the Yugoslav Community shall be confirmed by the SFRY Assembly.

The bylaws of the Yugoslav Community shall specifically set forth the internal organization of the Community, procedure to be followed in taking decisions to perform the tasks for which the Community is founded, the competence of the governing bodies and officers, and funds to finance the Community's activity.

The bylaws of the Yugoslav Community shall also set forth the manner of the Community's cooperation with organizations of associated labor which have links pertaining to their operation, production and income in the production for export and in forms of linkage and organization which they themselves establish.

#### Article 42

Representatives of the competent bodies of respective sociopolitical communities have the right to attend sessions of the governing bodies of the Yugoslav Community or the republic and provincial communities and to present opinions and views of the bodies and agencies which they represent.

#### IV. The Rate of Exchange of the Dinar and the Policy Governing the Dinar's Rate of Exchange

##### Article 43

The rates of exchange of foreign currencies against the dinar shall be formed on the unified foreign exchange market in accordance with the established policy governing the dinar's rate of exchange. The policy of a single and realistic rate of exchange of the dinar shall constitute an integral part of the country's joint economic policy and in particular of joint foreign exchange policy.

The SFRY Assembly shall establish policy governing the dinar's rate of exchange and the criteria, limits and guidelines governing measures to be taken to implement that policy.

The policy governing the dinar's rate of exchange shall also encompass the special conditions and manner of handling accounts in foreign trade with countries with which the clearing system of payments has been established by treaty.

The National Bank of Yugoslavia shall establish the methodology for setting the rate of exchange of the dinar.

On the basis of the joint foreign exchange policy that has been established the Federal Executive Council shall fix the dinar's rate of exchange against some accounting unit or some one or several convertible currencies.

The Federal Executive Council shall submit a report on implementation of policy governing the dinar's rate of exchange to the SFRY Assembly as necessary, but at least semiannually.

##### Article 44

The Federal Executive Council, the competent bodies of the republics and the competent bodies of the autonomous provinces, the Yugoslav Community and the republic and provincial communities, within the scope of their respective jurisdiction or activities, shall propose and take steps to maintain the dinar's rate of exchange in line with the established joint foreign exchange policy.

#### Article 45

The National Bank of Yugoslavia, the national banks of the republics and the national banks of the autonomous provinces shall implement the established policy governing the dinar's rate of exchange.

The National Bank of Yugoslavia shall intervene on the unified foreign exchange market in accordance with the established policy governing the dinar's rate of exchange.

#### Article 46

The National Bank of Yugoslavia, the national banks of the republics and the national banks of the autonomous provinces shall monitor and analyze movement of rates of exchange on the domestic foreign exchange market and on exchange markets abroad and other indicators that have a significant bearing on the level of rates of exchange, assessment of future trends and relative positions of rates of exchange.

#### Article 47

The Federal Executive Council shall set the rates of exchange of foreign currency for purposes of determining the base on which duties and other charges are computed, for computing tax exemptions involved in export transactions and for quantitative expression of the right to import and make foreign payments, and for statistical purposes; it shall set those rates in accordance with the rates at the interbank meeting of the unified foreign exchange market.

#### Article 48

Differences in rates of exchange in the conduct of transactions with foreign exchange of organizations of associated labor and other social juridical persons shall be borne by each participant in the use of foreign exchange directly or through authorized banks.

Differences in rates of exchange which arise out of credits used abroad shall be borne by the user of those credits.

#### Article 49

Differences in rates of exchange which arise on the basis of foreign exchange accounts and foreign exchange savings accounts which individuals and civil juridical persons have in authorized banks shall be charged to the resources which those banks possess.

Authorized banks may use the foreign exchange of individuals kept in those banks to make loans in conformity with the regulation adopted by the Federal Executive Council.

At the request of an authorized bank the National Bank of Yugoslavia must accept deposits of foreign exchange representing balances which individuals keep

in accounts of the authorized banks, interest-free credit to be simultaneously extended up to the equivalent amount in dinars to the authorized bank whose foreign exchange has been deposited.

The amount of the equivalent value in dinars referred to in Paragraph 3 of this article shall be determined by the National Bank of Yugoslavia in accordance with the rate of exchange in effect as of the date when the deposit of foreign exchange is received.

#### Article 50

Authorized banks may deposit in the National Bank of Yugoslavia the foreign exchange of organizations of associated labor originating from advances received on the basis of work to be done on capital investment projects abroad and the export of equipment and ships.

The National Bank of Yugoslavia is required at the request of the authorized bank to accept the deposit of foreign exchange referred to in Paragraph 1 of this article which is contained in the accounts of the authorized banks, extending at the same time interest-free credit to the authorized bank on the account of the organizations of associated labor referred to in that paragraph whose foreign exchange is being accepted in deposit, in the amount of the dinar equivalent of the foreign exchange deposited.

The amount of the dinar equivalent referred to in Paragraph 2 of this article shall be established by the National Bank of Yugoslavia in conformity with the rate of exchange of the dinar which is in effect on the date when the foreign exchange is accepted in deposit.

Organizations of associated labor which withdraw foreign exchange placed in a deposit through the authorized bank for purposes of making payments abroad within the period stipulated in the contract shall place the dinar equivalent referred to in Paragraph 3 of this article in the National Bank of Yugoslavia through the authorized bank in the amount and in accordance with the rate of exchange of the dinar which was in effect on the date when the foreign exchange was accepted in deposit.

The National Bank of Yugoslavia is required at the request of the authorized bank to make available the deposited foreign exchange originating from advances received within the period stipulated by the contract.

The foreign exchange referred to in Paragraph 1 of this article shall not be subject to distribution on the basis of Article 68 of this law before billing and collection.

#### V. The Foreign Exchange Market

##### Article 51

For the purpose of this law "unified foreign exchange market" means an organized system encompassing all purchases and sales of foreign exchange transacted within the Socialist Federal Republic of Yugoslavia in the manner set

forth in this and other federal laws and regulations concerning the conditions, organization and operation of the unified foreign exchange market issued by the Federal Executive Council on recommendation of the National Bank of Yugoslavia.

Domestic persons and foreign persons shall purchase and sell foreign exchange in authorized banks and authorized currency exchange offices in accordance with federal law.

Economic policy measures shall stimulate the economic motivation of organizations of associated labor to sell foreign exchange on the unified foreign exchange market.

Fully authorized banks shall buy and sell foreign currencies among themselves directly and at the interbank meeting.

The National Bank of Yugoslavia shall also participate in the interbank meeting.

An internal bank may purchase and sell foreign exchange in an authorized bank on behalf of the basic organizations of associated labor which established it.

#### Article 52

Foreign exchange may be purchased and sold on the unified foreign exchange market on a spot or forward basis.

The term "spot purchase and sale of foreign exchange" refers to transactions in which foreign exchange is sold and purchased on the foreign exchange market on the basis of a contract calling for immediate completion of the transaction, no later than 2 working days from the date when the contract is completed.

The term "forward purchase and sale of foreign exchange" refers to transactions in the purchase and sale of foreign exchange concluded on the unified foreign exchange market in which the contract stipulates a period from 30 days to 1 year for completion of the transaction and which under the contract are completed by a specified date.

#### Article 53

On the recommendation of the National Bank of Yugoslavia and after first obtaining the opinion of the Yugoslav Community the Federal Executive Council shall issue an order on the organization and operating procedures of the interbank meeting.

#### Article 54

The National Bank of Yugoslavia, in agreement with fully authorized banks, shall specify which foreign currencies may be purchased and sold on the unified foreign exchange market and at the interbank meeting.

If the agreement referred to in Paragraph 1 of this article is not concluded within 30 days from the date when this law takes effect or from the date when proceedings are requested to amend the agreement referred to in Paragraph 1 of this article, the National Bank of Yugoslavia shall issue an order on the currencies which may be traded until such agreement is concluded.

If major disturbances occur in the trading of certain currencies on foreign exchange markets abroad, the National Bank of Yugoslavia may with consent of the Federal Executive Council temporarily restrict or prohibit the purchase and sale of a particular currency on the unified foreign exchange market.

#### Article 55

The National Bank of Yugoslavia shall purchase and sell foreign exchange at the interbank meeting in order to maintain overall liquidity in international payments and to maintain the dinar's rate of exchange, in accordance with established joint foreign exchange policy and policy governing the dinar's rate of exchange.

The National Bank of Yugoslavia shall intervene at the interbank meeting with the amount of foreign exchange required to ensure fulfillment of the established proportions and exercise of the right to foreign exchange in Yugoslavia's balance and exchange balance, in accordance with Article 43 of this law.

The National Bank of Yugoslavia shall determine which foreign currencies require its intervention at the interbank meeting.

#### Article 56

Fully authorized banks may purchase and sell foreign currencies on foreign exchange markets abroad in order to make substitutions under the conditions defined by the National Bank of Yugoslavia.

#### Article 57

Banks authorized to handle international transactions shall purchase and sell foreign exchange at the rates of exchange set in the interbank meeting of the unified foreign exchange market.

#### Article 58

Average rates of exchange of foreign currencies shall be set on the basis of the rates of exchange at which currencies are traded at the interbank meeting.

Buying or selling rates shall be formed on the basis of the average rates of exchange of foreign currencies by adding or subtracting the margin set forth in the official act concerning the organization and operating procedure of the interbank meeting.

The average rates of exchange of foreign currencies shall also be used in indicating the values of foreign currencies in the statements and balance sheets of banks and other public legal persons.

## Article 59

Authorized banks shall make spot purchases of foreign exchange from domestic persons and foreign persons and shall make spot sales to such persons at the buying and selling rates referred to in Article 58, Paragraph 2, of this law.

Banks authorized to handle international transactions shall conclude spot foreign exchange purchases and sales with one another at the rates of exchange set at the interbank meeting of the unified foreign exchange market.

A fully authorized bank which purchases or sells foreign exchange on behalf of an organization of associated labor at a rate which that organization has set or at a more favorable rate shall conduct the purchase or sales transaction with that organization at the rate of exchange at which it actually purchased or sold the foreign exchange.

## Article 60

Authorized banks shall make spot purchases of foreign exchange from domestic public legal persons and spot sales of foreign exchange to such persons in the name and on the account of such persons, but when they are making purchases from domestic civil legal and natural persons or making sales to such persons, they shall do so in their own name and on their own account.

Authorized banks shall make spot purchases of foreign exchange from foreign persons and spot sales of foreign exchange to such persons in their own name and on their own account.

## Article 61

Forward purchases and sales of foreign exchange shall be made among authorized banks and between authorized banks and organizations of associated labor.

Domestic civil legal and natural persons and foreign persons may not make forward purchases and sales of foreign exchange.

## Article 62

Forward purchases and sales of foreign exchange shall be made at the rates of exchange the parties to the contract agree on in bargaining, under the conditions specified by the Federal Executive Council.

## Article 63

A contract concerning a forward purchase and sale of foreign exchange shall be considered concluded when the parties to the contract register the signed sales agreement in accordance with the procedure set forth in the order concerning the organization and operating procedure of the interbank meeting.

The seller of foreign exchange in a forward transaction must transfer the foreign exchange to the purchaser's foreign exchange account by the date which is

stated in the sales agreement. The purchaser of foreign exchange in a forward transaction must transfer the equivalent amount in dinars to the seller's clearing account by the date stated in the sales agreement.

## VI. The Earning, Acquisition, Disposition and Pooling of Foreign Exchange and Trade in Gold

### 1. The Earning, Acquisition, Disposition and Pooling of Foreign Exchange by Organizations of Associated Labor and Other Public Legal Persons

#### Article 64

Basic and other organizations of associated labor shall earn foreign exchange in the following ways:

- 1) by selling goods and services on the foreign market;
- 2) through long-term production cooperation with foreign countries;
- 3) through the conduct of business activities abroad in accordance with federal law;
- 4) by obtaining credit abroad;
- 5) by issuing securities;
- 6) and through other business relations and arrangements with foreign countries established in conformity with this law.

Basic and other organizations of associated labor shall earn foreign exchange through independent conduct of the transactions referred to in Paragraph 1 of this article or through a mutual relationship within a work organization, a complex organization of associated labor, or other forms of linkage and association for purposes of joint production of goods and services and joint earning of income.

#### Article 65

Foreign exchange which basic organizations of associated labor realize in their independent conduct of business shall belong to those organizations, and they shall dispose of it in conformity with this law.

Foreign exchange realized through the pooling of labor and capital shall belong to the basic organizations of associated labor which participated in earning it through their mutual production, financial or other economic cooperation.

Organizations of associated labor which have relations of direct linkage and dependence in reproduction shall in a self-management compact regulate their mutual relations in the joint production of goods and rendering of services for export and the distribution of the foreign exchange realized through that

exporting among the actual exporters and their subcontractors in proportion to their respective contributions in the realization of the joint exports and inflow of foreign exchange.

Authorized banks shall immediately, no later than within 3 days, distribute the inflow of foreign exchange realized on the basis of exports of goods and services to organizations of associated labor which in the relations of direct linkage and dependence in reproduction have participated in realizing the foreign exchange, in accordance with the self-management accord referred to in Paragraph 3 of this article.

Disputes concerning the relations covered by this article shall be settled by the competent court of associated labor.

#### Article 66

Organizations of associated labor may pool foreign exchange they have realized or become entitled to on the basis of the established contribution within the limits of the agreed needs of reproduction on the basis of a self-management accord concerning the pooling of labor and capital or on the basis of a contract concerning lasting industrial cooperation, joint ventures within the country and abroad or business-technical collaboration for the purpose of joint production of goods and rendering of services for export which would contribute to realizing a larger inflow of foreign exchange and earning of joint income, including the bearing of the joint risk.

Foreign exchange pooled for the purposes stated in Paragraph 1 of this article may be used only to make payments abroad.

Organizations of associated labor which pool foreign exchange may transfer it to each other's account which they have in authorized banks only for the purposes for which it has been pooled.

The self-management accord or contract on pooling of foreign exchange may not envisage sale of foreign exchange for the dinar equivalent of the pooled exchange, nor may credits be granted on the basis of foreign exchange pooled in this manner.

#### Article 67

The point of departure in the disposition of foreign exchange shall be the principle that the foreign exchange has been realized through work with capital owned by society and that it is the result of the work of the workers in organizations of associated labor and of the labor of the entire society.

#### Article 68

Basic organizations of associated labor shall retain of the foreign exchange inflow which they realize a portion denominated in foreign exchange as established on the basis of uniform criteria.

Basic organizations of associated labor shall on a priority basis use the portion of foreign exchange which they retain to discharge their obligations under foreign credits and obligations assumed under international conventions and shall meet the agreed needs in their reproduction.

At the same time foreign exchange shall also be set aside out of the portion of foreign exchange which basic organizations of associated labor retain on the basis of uniform criteria:

- i. for the import of energy raw materials to meet the established needs of society;
- ii. for the import of goods particularly important to supply of the public;
- iii. for a portion of necessary needs in reproduction of basic organizations of associated labor whose contribution to the export cannot be ascertained or is not sufficient to cover necessary import needs;
- iv. for the most necessary needs in reproduction of basic organizations of associated labor which have established import needs, but do not participate in export;
- v. for compensation as referred to in Article 22 of this law if the acts setting forth or conducting the country's joint economic policy envisages an export ban or restriction.

The uniform criteria referred to in Paragraph 1 of this article shall be set forth by the Yugoslav Community of Interest.

Before determination of the portion of foreign exchange which basic organizations of associated labor shall retain an act of the SFRY Assembly shall fix the portion of foreign exchange to meet the needs of the Federation, as follows:

- i. to meet the needs of federal bodies, agencies and organizations in making payments abroad;
- ii. to replenish Yugoslavia's foreign exchange reserves handled by the National Bank of Yugoslavia;
- iii. to repay credit which the National Bank of Yugoslavia has taken in its own name and on its own account.

The uniform criteria shall ensure that the portion of foreign exchange retained by basic organizations of associated labor in the context of Paragraph 2 of this article depend on the inflow of foreign exchange which they achieve.

The uniform criteria shall guarantee stimulation of exports, equality of organizations of associated labor on the unified Yugoslav market, and broader linkage and pooling in the context of Articles 65 and 66 of this law.

The portion of foreign exchange for the purposes stated in Paragraphs 3 and 5 of this article shall be stated in fixed amounts, and the foreign exchange shall be set aside in proportion to the country's inflow of foreign exchange, but not to exceed the stated amount.

#### Article 69

The Yugoslav Community of Interest shall set forth the uniform criteria referred to in Article 68 of this law in collaboration with general associations and the Economic Chamber of Yugoslavia, within the limits of the proportions of Yugoslavia's balance of payments and exchange balance.

The uniform criteria referred to in Paragraph 1 of this article shall be subject to consent of the Federal Executive Council with respect to their conformity with the proportions of Yugoslavia's balance of payments and exchange balance and joint foreign exchange policy.

The uniform criteria referred to in Paragraph 1 of this article shall be set forth simultaneously with the joint economic policy for the coming year.

If the uniform criteria referred to in Paragraph 1 of this article are not set forth simultaneously with the joint economic policy for the coming year, the Federal Executive Council shall within a further period of 30 days decide that the uniform criteria previously in effect shall be applied or shall adopt other temporary solutions which shall be applied until the uniform criteria are set forth.

Basic organizations of associated labor engaged in special-purpose production shall retain that portion of the inflow of foreign exchange which has been established on the basis of criteria set forth by the Federal Executive Council.

The portion of foreign exchange which basic organizations of associated labor engaged in special-purpose production retain shall be used to make payments for the import of special-purpose products, raw materials, production materials and equipment for the production of special-purpose products for export.

#### Article 70

The uniform criteria referred to in Article 68 of this law shall state that portion of the inflow of foreign exchange which individual lines of business shall retain from the inflow of foreign exchange realized by basic organizations of associated labor in the respective line of business.

Basic organizations of associated labor in a particular line of business shall distribute the portion of foreign exchange retained pursuant to Paragraph 1 of this article among themselves, within the framework of their self-management forms of organization and linkage, the distribution to individual basic organizations of associated labor to be in accordance with their needs in reproduction as mutually acknowledged.

## Article 71

The act of the competent body in the republic or autonomous province shall establish within the portion of foreign exchange which basic organizations of associated labor retain on the basis of the uniform criteria referred to in Article 68 of this law the amount for the following:

- i. for payments abroad of bodies, agencies and organizations of sociopolitical communities in the republic or autonomous province;
- ii. to repay credits taken abroad by the republic or autonomous province.

The foreign exchange for the purposes stated in Paragraph 1 of this article shall be established in a fixed amount; needs shall be met in proportion to the inflow of foreign exchange realized, but not to exceed the amount established.

In the republic or provincial community a portion of the foreign exchange shall be established within that portion of foreign exchange which basic organizations of associated labor retain on the basis of the uniform criteria referred to in Article 68 of this law to meet the following purposes:

- i. joint needs in the social services;
- ii. the needs of the economic infrastructure: energy, transportation and similar needs, over and above the needs agreed on through self-management procedure in the context of Article 68 of this law;
- iii. the needs of the small business sector;
- iv. the needs of other lines of business pursued within the republic or autonomous province.

## Article 72

Organizations of associated labor which retain a portion of foreign exchange in the context of Article 68, Paragraph 2, of this law are required to sell the amount of foreign exchange exceeding the portion so established to authorized banks for inclusion in the flows of the unified foreign exchange market.

Authorized banks shall ensure maximum use and more rapid circulation of the available foreign exchange potential, and they are thus required to maintain their own liquidity in international payments within the limits prescribed by the National Bank of Yugoslavia and to sell foreign exchange which they possess beyond those limits at the interbank meeting of the unified foreign exchange market.

The authorized banks shall channel their available foreign exchange potential as referred to in Paragraph 2 of this article in such manner that should there be a discrepancy in time between the actual inflow and outflow of foreign exchange of individual authorized banks, the authorized banks shall temporarily

furnish the foreign exchange to meet the needs in reproduction of basic organizations of associated labor realizing an inflow of foreign exchange.

#### Article 73

An act of the SFRY Assembly shall fix the volume of foreign exchange and the right to purchase foreign exchange on the unified foreign exchange market to meet the needs of the Federation, in accordance with the provisions of Article 25 of this law.

The volume of foreign exchange and of the right to purchase foreign exchange to meet the needs of federal bodies and agencies and federal organizations, as fixed in the acts referred to in Paragraph 1 of this article, shall be distributed among individual federal bodies and agencies and federal organizations by the Federal Executive Council.

#### Article 74

The basic organization of associated labor which sells on the unified foreign exchange market foreign exchange which it has earned may again purchase foreign exchange on the unified foreign exchange market up to the limit of the rights which it has on the basis of the uniform criteria referred to in Article 68 of this law.

In a sale of foreign exchange as referred to in Paragraph 1 of this article organizations of associated labor may conclude a contract with authorized banks as to the schedule for the repurchase of foreign exchange to make payments abroad within the limits of the volume established for their agreed needs in reproduction as referred to in Article 68, Paragraph 2, of this law.

#### Article 75

Domestic persons must repatriate foreign exchange which they have realized in exporting goods and services or on some other basis, unless this law states otherwise.

#### Article 76

The trade in and conveyance of foreign exchange between domestic persons and between domestic persons and foreign persons in Yugoslavia are prohibited unless this law provides otherwise.

The term "trade in foreign exchange" as used in Paragraph 1 of this article also includes use of the foreign exchange of one domestic person to pay for imports of goods and services to meet the needs of another domestic person.

#### Article 77

It is prohibited to make payment or collection in foreign exchange or gold between domestic persons and between Yugoslav nationals and foreign nationals on the territory of the Socialist Federal Republic of Yugoslavia and to conclude

transactions which provide that the dinar value of the contractual obligation shall be computed on the basis of the price of gold or the rate of exchange of the dinar relative to foreign currencies, unless this or other federal law states otherwise.

The prices of services rendered to foreign persons in Yugoslavia and to domestic persons in international transportation may be denominated in a foreign currency if an obligation to that effect has been assumed in an international convention, but collection shall be made exclusively in dinars.

The provisions of a legal transaction contrary to the prohibition referred to in Paragraph 1 of this article shall be null and void.

#### Article 78

The National Bank of Yugoslavia shall through the authorized banks transfer to organizations of associated labor which directly render services and which submit checks to it for collection issued by the National Bank of Yugoslavia the amount of foreign exchange which is the face value of the check submitted.

Foreign means of payment purchased at currency exchange offices with effective dinars shall be distributed every year in the act on joint foreign exchange policy.

Foreign means of payment realized by selling tourists gasoline coupons within the country and by selling commercial coupons for gasoline and petroleum derivatives and on the basis of the sale of petroleum derivatives to foreign carriers shall be earmarked for use for payment for imported petroleum and petroleum derivatives from the account of the National Bank of Yugoslavia.

#### Article 79

Business communities, banking organizations, cooperatives, chambers and other general associations, self-managing communities of interest and other self-managing organizations and communities, sociopolitical organizations and other civic organizations, and other public legal persons may keep foreign exchange they have earned in a foreign exchange account with only one authorized bank, may use it for their own purchases in accordance with this law, or may sell it on the unified foreign exchange market.

The persons referred to in Paragraph 1 of this article may keep foreign exchange they have earned abroad under the conditions prescribed by the Federal Executive Council.

#### Article 80

Sociopolitical communities and their bodies, agencies and organizations must sell on the unified foreign exchange market foreign exchange which they have realized.

As an exception to Paragraph 1 of this article, the Federal Executive Council may prescribe that a portion of the foreign exchange realized by the Yugoslav People's Army by rendering services to foreign persons shall be used for payments to foreign countries to meet its own needs.

#### Article 81

Augmentation of the inflow of foreign exchange from the export of goods and services and of other forms of inflow of foreign exchange shall be stimulated by the measures of the development policy, by the system and mechanism of tax, duty and other rebates, by the measures of credit and monetary policy, and by other measures of economic policy.

The provisions of Paragraph 1 of this article shall not apply to foreign exchange which organizations of associated labor and other social juridical persons have realized and hold in a foreign exchange account with an authorized bank.

#### Article 82

Rebates of duties and other charges shall be regulated by a self-management accord among the republic and provincial communities within the Yugoslav Community, with consent of the Federal Executive Council.

In agreement with the executive councils of assemblies of the republics and executive councils of the assemblies of the autonomous provinces the republic and provincial communities shall also enact other rebates in conformity with the basic criteria which have been assumed and which have been agreed on in the Yugoslav Community.

If the self-management accord referred to in Paragraph 1 of this article is not concluded in good time, the Federal Executive Council may decide to apply the measures or acts which were previously in effect or to enact other temporary arrangements to be applied until the accord is concluded.

#### Article 83

Every year when it enacts the federal budget the SFRY Assembly shall act on the proposal of the Federal Executive Council to fix that portion of revenues from customs duties and other import charges, expressed as a percentage, which shall not be included in the federal budget and which shall be relinquished to the Yugoslav Community for rebate of duties and other charges to organizations of associated labor which are exporting.

The SFRY Assembly may decide not to include revenues based on certain import charges in the federal budget and to relinquish all such revenues to the Yugoslav Community to be used for rebate of customs duties and other charges to organizations of associated labor which are exporting.

Revenues from the special fees referred to in Article 182 of this law shall not be included in the federal budget and shall be entirely relinquished to

the Yugoslav Community for rebate of customs duties and other charges to organizations of associated labor which are exporting.

#### Article 84

The Federal Executive Council shall establish the measures and mechanisms referred to in Article 82 of this law in accordance with the guidelines of the competent body of the Federation in order to stimulate export of special-purpose products and other forms of economic relations with foreign countries whose special purpose is in the general public interest.

#### Article 85

The framework and guidelines for measures taken to stimulate the inflow of foreign exchange shall be set forth in the joint components of credit and monetary policy. Incentives related to the influx of foreign exchange shall be established in the measures of current and medium-term economic policy.

### 2. Disposition of Foreign Exchange of Individuals and Civil Legal Persons

#### Article 86

Individual citizens and civil legal persons may purchase foreign exchange from authorized banks to meet their own needs for health care and education, for traveling and moving expenses abroad, to support members of their families abroad, to settle court and other costs and to meet other purposes, in the amounts and under the conditions prescribed by the Federal Executive Council on the basis of consent from the competent bodies of the republics and autonomous provinces.

#### Article 87

The Federal Executive Council shall prescribe the conditions under which individuals and civil juridical persons may:

- 1) purchase coupons to pay for gasoline abroad;
- 2) pay for services rendered them in international passenger transportation by foreign persons;
- 3) pay domestic tourist agencies the costs of group and individual trips abroad.

#### Article 88

Foreign exchange which individual citizens and civil legal persons bring into the country or receive from abroad may be sold to an authorized bank and authorized currency exchange office or placed in a foreign exchange account or foreign exchange savings account in an authorized bank.

Individual citizens and civil legal persons may use foreign exchange kept in a foreign exchange account or foreign exchange savings account in accordance with the regulations enacted by the Federal Executive Council.

#### Article 89

Individual citizens and civil legal persons may use foreign exchange to purchase securities issued by organizations of associated labor to expand their plant and equipment.

On the basis of consent from the competent bodies of the republics and autonomous provinces and after first obtaining the opinion of the Yugoslav Community, the Federal Executive Council shall prescribe the conditions, manner and procedure for the use of foreign exchange to purchase securities and of the obtaining of foreign exchange to pay for the securities referred to in Paragraph 1 of this article and the conditions under which the securities may be paid for in dinars.

#### Article 90

The foreign exchange accounts of individual citizens and civil legal persons and the foreign exchange savings accounts of individual citizens and civil legal persons may be either demand accounts or time accounts.

#### Article 91

Authorized banks shall pay interest in foreign exchange on the foreign exchange accounts of individual citizens and civil legal persons and on the foreign exchange savings accounts of individual citizens and civil legal persons.

#### Article 92

Authorized banks must safeguard the secrecy of information concerning the foreign exchange accounts of individual citizens and the foreign exchange savings accounts of individual citizens.

Information on the foreign exchange accounts of individual citizens and the foreign exchange savings accounts of individual citizens may be given out only at the written request of a court.

#### Article 93

The Federation shall guarantee the foreign exchange accounts of individual citizens and the foreign exchange savings accounts of individual citizens.

### 3. The Carrying of Dinars, Foreign Exchange and Securities in and out of the Country

#### Article 94

The carrying of dinars into and out of Yugoslavia in international passenger transportation shall be subject to the amount and denominations prescribed by the National Bank of Yugoslavia.

The use of the mails and other shipments to send out of Yugoslavia dinars and instruments made out in dinars, effective foreign currency and instruments denominated in a foreign currency shall be subject to the conditions prescribed by the National Bank of Yugoslavia.

The use of the mails and other shipments to bring into Yugoslavia dinars and instruments denominated in dinars shall be subject to the conditions prescribed by the National Bank of Yugoslavia.

#### Article 95

Foreign exchange may be freely brought into Yugoslavia.

Individual citizens may carry abroad all foreign currencies which they have obtained or which they possess in accordance with regulations.

Foreign nationals and Yugoslav citizens working abroad temporarily may on their departure from Yugoslavia carry with them foreign exchange which they brought into Yugoslavia and other foreign exchange which they are free to possess in Yugoslavia in accordance with regulations.

Dinars which foreign nationals and Yugoslav citizens working abroad temporarily possess in Yugoslavia and which originate from foreign exchange sold to an authorized bank or currency exchange office may be carried out of Yugoslavia in the denominations and amounts which are allowed to be carried out or may be used to purchase the same foreign currency for purposes of transfer abroad.

#### Article 96

Domestic savings account passbooks denominated in dinars to a specific individual and domestic and foreign savings account passbooks denominated in foreign currencies may freely be carried or sent into and out of Yugoslavia.

Domestic savings account passbooks in dinars which are not made out to a specific individual may be carried or sent from Yugoslavia only with permission of the national bank of the republic or the national bank of the autonomous province, in conformity with the conditions prescribed by the National Bank of Yugoslavia.

## Article 97

Domestic securities denominated in foreign exchange or dinars may freely be carried or sent into and out of Yugoslavia.

Foreign securities may freely be carried or sent into Yugoslavia, but they may be carried or sent out of Yugoslavia only with the permission of the national bank of the republic or the national bank of the autonomous province, in conformity with the conditions prescribed by the National Bank of Yugoslavia.

## Article 98

Foreign securities, coupons of foreign securities and foreign savings account passbooks may be negotiated by domestic persons only through fully authorized banks.

The instruments referred to in Paragraph 1 of this article may be sold to fully authorized banks and paid for either in dinars or foreign exchange, in accordance with regulations.

## Article 99

Checks drawn in Yugoslavia on foreign persons may not be resold nor endorsed in Yugoslavia.

Checks in dinars drawn in Yugoslavia may not be honored if they have been endorsed by a foreign person.

## 4. Trade in Gold

### Article 100

Gold coin and newly mined gold (nepreradjeno zlato) may be exported and carried out of the country by the following:

- 1) the National Bank of Yugoslavia--in the form of newly mined gold and coin;
- 2) organizations of associated labor engaged in the production of gold (hereafter referred to as "gold producers")--in the form of newly mined gold;
- 3) fully authorized banks--in the form of gold coin.

Domestic persons other than the persons referred to in Paragraph 1 of this article may export and carry newly mined gold and gold coin abroad only with permission of the National Bank of Yugoslavia.

### Article 101

Gold producers may sell newly mined gold to organizations of associated labor which use gold as part of their regular activity and to government agencies for their needs (hereafter referred to as "gold users") and to the National Bank of Yugoslavia, or they may sell it abroad.

Gold users and the National Bank of Yugoslavia may sell newly mined gold abroad as well.

The Federal Executive Council shall prescribe the conditions under which gold users may purchase newly mined gold from gold producers in Yugoslavia or abroad.

#### Article 102

Only gold users may melt down gold and make gold bars, and they may do so for their own purposes and to meet the needs of other gold users.

The melting down of gold coin is prohibited.

#### Article 103

Authorized banks, gold producers and gold refineries may exchange articles of gold and scrap gold for gold alloy used in dentistry.

Authorized banks may exchange gold coin for gold alloy used in dentistry.

#### Article 104

The trade in articles of gold, scrap gold, gold alloy used in dentistry and other dental gold shall be unrestricted within the limits of regulations on commodity trade and regulations on control of articles manufactured from precious metals.

Authorized banks may purchase gold coin from domestic and foreign persons at the price at which such gold is sold on the world market.

#### Article 105

Gold producers must keep records on the amount of gold produced and sold, and gold users must keep records on amounts of gold purchased and processed.

The federal secretary for finance shall prescribe the manner in which the records referred to in Paragraph 1 of this article shall be kept.

#### Article 106

In the context of this law the term "gold" refers to gold in whatever state and form except articles of gold and scrap gold.

In the context of this law the term "articles of gold" refers to jewelry, ornaments, articles which have artistic value and other use value manufactured from gold.

In the context of this law the term "scrap gold" refers to articles of gold which are purchased or sold by weight, purity and the price of pure gold without taking into account manufacturing costs.

In the context of this law the term "gold bar" refers to newly mined gold in whatever form.

In the context of this law the term "gold coin" refers to all types of gold coins regardless of whether they are legal tender in any country.

#### Article 107

If the situation with regard to liquidity of international payments, the level and composition of foreign exchange holdings and other considerations so require, the Federal Executive Council may restrict or prohibit gold from being exported and carried abroad and may restrict domestic trade in gold.

### VII. International Payments

#### Article 108

International payments shall be made in dinars and foreign exchange.

Payments in transaction of business with countries with which a payments or other international treaty has been concluded calling for payment in convertible currencies shall be made in dinars, in agreed convertible currencies or in other convertible currencies.

Payments in transactions with countries with which an international treaty has been concluded calling for the clearing method of payment shall be made in the currency of account envisaged by that treaty.

Payments traffic with the developing countries shall be conducted in dinars and foreign exchange as envisaged in the international treaties with those countries.

Payments traffic with countries with which an international treaty has not specified the method of payment shall be conducted in dinars and convertible currencies.

The National Bank of Yugoslavia shall prescribe the manner in which international payments shall be made and shall issue instructions so that international payments traffic is conducted uniformly.

#### Article 109

On the basis of consent from the competent bodies of the republics and autonomous provinces the Federal Executive Council shall specify the conditions under which the national banks of the republics and the national banks of the autonomous provinces may approve a different method of international payments than the method envisaged by the treaty referred to in Article 108 of this law, unless such method of payment has been precluded by that treaty.

The Federal Executive Council may set forth the conditions and manner of contracting for the export of goods and services to particular countries so that

collection for the exports is made by importing goods and the rights based on exports realized in this manner.

In agreement with the Federal Executive Council the National Bank of Yugoslavia may order, if exceptional circumstances so require, that payments and collections in a particular currency be made only with countries with which an international treaty has specified that payments and collections be made solely in that currency or with countries in which that currency is the national currency.

The national bank of the republic or the national bank of the autonomous province may allow an organization of associated labor to make payments or collections in an effective foreign currency under conditions specified by the Yugoslav National Bank, and it may allow it to collect part payment for exports of goods and services in a country which may not be transferred according to the regulations of the relevant country.

The national bank of the republic or the national bank of the autonomous province may allow an organization of associated labor to offset its foreign payables and receivables under the conditions specified by the National Bank of Yugoslavia. The date of the permit's issuance shall be regarded as the date of payment or collection.

#### Article 110

International payments shall go through fully authorized banks unless this law states otherwise.

A domestic person shall choose the fully authorized bank through which that person will conduct his traffic of international payments.

#### Article 111

Basic and other organizations of associated labor and other social juridical persons shall select one authorized bank in which they shall keep foreign exchange in a foreign exchange account.

Basic organizations of associated labor may also keep foreign exchange in their internal bank, which shall hold that foreign exchange in their name in a foreign exchange account in an authorized bank or which may sell it on the unified foreign exchange market.

#### Article 112

The National Bank of Yugoslavia shall conduct international payments traffic to meet the needs of the Federation and its bodies, agencies and organizations.

As an exception to the provision of Paragraph 1 of this article, international payments traffic which an agency competent for the trade in and reserves of special-purpose products conducts on behalf of basic organizations of associated labor which are producers of special-purpose products and the manner of

payments and collections related to those transactions shall be set forth in a social compact which the Federal Executive Council shall conclude with those organizations.

If the social compact referred to in Paragraph 2 of this article is not concluded within 30 days following the day when this law takes effect, the Federal Executive Council shall issue an order on the conditions and manner of the handling of payments traffic referred to in that paragraph.

#### Article 113

Domestic persons must collect and bring into Yugoslavia the foreign exchange earned by exporting goods and services within 90 days from the day when the goods were exported or when the service was rendered. The date when goods clear customs shall be regarded as the date of export of goods.

Domestic persons must collect claims on the basis of exports of goods and services on credit and repatriate the foreign exchange proceeds within the period envisaged by the credit contract.

Domestic persons must collect claims arising on some other basis and repatriate the foreign exchange proceeds within 90 days from the date when the claim became payable. Individual citizens working abroad temporarily are exempted from this obligation.

The date when foreign exchange is collected and repatriated under Paragraphs 1 through 3 of this article shall be taken as the day when the amount of foreign exchange was posted in the account of the authorized bank, the date when the account of the domestic person in an authorized bank was debited to the credit of another domestic person, or the day when a domestic person deposits foreign exchange brought into the country with the authorized bank for settlement of the account.

When collection is made in the context of Article 109, Paragraph 2, of this law, the National Bank of Yugoslavia may prescribe which date shall be taken as the date of collection and the date when the foreign exchange was brought into Yugoslavia.

If an organization of associated labor has been allowed to hold foreign exchange abroad under Article 116 of this law, the date when the amount of foreign exchange is posted in the account of the organization of associated labor shall be taken as the date when the foreign exchange was collected and repatriated.

The federal secretary for foreign trade, after first obtaining the opinion of the federal administrative agency competent for the relevant type of service, shall prescribe which date shall be taken as the date when a service was rendered under the provisions of this article.

#### Article 114

Domestic persons must import a commodity which has been paid for or obtain a service which has been paid for within 90 days from the date when the fully authorized bank executes the order for payment. The date when the commodity clears customs is taken as the date of import.

#### Article 115

The national bank of the republic or the national bank of the autonomous province may extend the period referred to in Articles 113 and 114 of this law under the conditions defined by the National Bank of Yugoslavia.

The National Bank of Yugoslavia may extend the period referred to in Articles 113 and 114 of this law for transactions which under the provisions of this law pertain to special-purpose products and other forms of foreign economic relations of particular public interest.

An appeal may be filed with the National Bank of Yugoslavia against a decision of the national bank of the republic or the national bank of the autonomous province rendered on the basis of Paragraph 1 of this article.

#### Article 116

When the conduct of foreign business operations so requires, the national bank of the republic or the national bank of the autonomous province may grant permission for an organization of associated labor to hold the foreign exchange necessary to the conduct of that business in accounts abroad or to conduct that business through an open account, under the conditions defined by the National Bank of Yugoslavia.

An appeal may be filed with the National Bank of Yugoslavia against a decision of a national bank of a republic or national bank of an autonomous province rendered under Paragraph 1 of this article.

Organizations of associated labor must submit reports to the national bank of the republic or the national bank of the autonomous province concerning the transactions and balance of the account referred to in Paragraph 1 of this article, as well as other information related to the conduct of business abroad through such accounts, such reporting to be in the manner and on the date specified by the National Bank of Yugoslavia in agreement with the Federal Executive Council.

The national banks of the republics and the national banks of the autonomous provinces shall submit reports to the National Bank of Yugoslavia on transactions and balances of the accounts referred to in Paragraph 1 of this article in the manner and on the date specified by the National Bank of Yugoslavia.

### Article 117

Differences in value coming about in foreign business transactions because of transportation risks, discounts, penalties, rebates, value adjustments, and the like which ought to have been paid or collected or repatriated shall be documented. The management body of the organization of associated labor shall decide on the justifiability of the difference that has come about.

The manner and procedure of justifying differences as referred to in Paragraph 1 of this article shall be prescribed by the federal secretary for finance in agreement with the federal secretary for foreign trade.

### Article 118

Payments and collections related to transactions involving imports and exports of goods and services in local border traffic and neighboring overseas traffic and to international fair compensation contracts shall be governed by a regulation issued by the Federal Executive Council with the concurrence of the competent bodies of the republics and autonomous provinces, in conformity with this law and international treaties concerning such traffic.

### Article 119

Foreign persons may deposit dinars and foreign exchange in demand accounts and time accounts or may purchase savings certificates only in authorized banks.

After first obtaining the opinion of the authorized banks the National Bank of Yugoslavia may define the conditions under which deposits of funds of foreign persons may be accepted.

### Article 120

Foreign persons may acquire dinar funds in an account with an authorized bank in the following ways:

- 1) by purchasing dinars for foreign exchange as referred to in Article 54, Paragraph 1, of this law;
- 2) by selling to a domestic person for dinars goods and services which the domestic person has the right to import and pay for under the provisions of this law and regulations enacted on the basis of this law;
- 3) through a transfer from the account of another foreign person who has funds on either of the bases referred to under Subparagraphs 1 and 2 of this paragraph.

Foreign persons may use dinar balances acquired under Paragraph 1 of this article to pay for goods and services and to make all other payments in Yugoslavia, for transfer abroad and for transfer to another foreign person.

Domestic persons making collections under Paragraph 2 of this article shall acquire the rights on the basis of those dinar funds which they would have under the regulations were the collection made in foreign exchange.

Foreign persons may also use dinar funds acquired under Paragraph 1 of this article to extend credit to organizations of associated labor and other public legal persons. Organizations of associated labor and other public legal persons may take such credit in conformity with the provisions of Articles 138 through 181 of this law.

#### Article 121

Dinar funds which foreign persons realize on some other basis than the bases referred to in Paragraph 1 of Article 120 of this law may be held by them in an account in an authorized bank or used to make certain payments in Yugoslavia, for transfer to certain foreign persons and for transfer abroad, under the conditions set forth by the Federal Executive Council.

Domestic persons may acquire certain rights on the basis of dinars collected on the basis of Paragraph 1 of this article, such rights to be set forth by the Federal Executive Council after first obtaining the opinion of the Yugoslav Community.

Domestic persons shall not be assured rights on the basis referred to in Article 68 of this law for payments abroad for the amount of dinar claims of foreign persons for services rendered to domestic persons which on the basis of the regulation referred to in Paragraph 1 of this article they may not transfer abroad, but which are used only for certain payments in Yugoslavia.

#### Article 122

Basic and other organizations of associated labor and other domestic persons shall pay for goods and services which are imported and shall make other payments abroad on the basis of the uniform criteria referred to in Article 68 and the acts referred to in Articles 71 and 73 of this law:

- 1) with foreign exchange realized under Articles 65 and 79 and Article 133, Paragraph 4, of this law and with dinars realized under Articles 120 and 121 of this law;
- 2) with foreign exchange obtained on the basis of a pooling arrangement with other organizations of associated labor as referred to in Article 66 of this law;
- 3) with foreign exchange purchased on the foreign exchange market in conformity with the provisions of Article 68 and Articles 73 and 74 of this law;
- 4) with foreign exchange obtained on the basis of credit abroad;
- 5) with foreign exchange brought into Yugoslavia on the basis of a contract whereby foreign persons invest funds in a domestic organization of associated labor;

- 6) with foreign exchange obtained from individual citizens by issuing bonds under Article 89 of this law;
- 7) with foreign exchange realized on the basis of a transfer of earnings and recovery of invested assets and on the basis of interest on credit extended;
- 8) with foreign exchange realized from other relations abroad, in accordance with regulations.

Authorized banks shall purchase on the unified foreign exchange market that foreign exchange required to pay interest in foreign exchange which they pay on the foreign exchange savings deposits of individual citizens on the basis of the uniform criteria referred to in Article 68 of this law.

#### Article 123

International payments conducted through a fully authorized bank shall be conducted through foreign exchange accounts in Yugoslavia.

The payments traffic referred to in Paragraph 1 of this article shall be monitored and audited by the national banks of the republics and the national banks of the autonomous provinces in the manner prescribed by the National Bank of Yugoslavia.

So as to ensure unity in public oversight and recordkeeping, the Social Accounting Service is hereby authorized to examine as necessary the conduct of business pertaining to payments traffic and to the monitoring of international payments traffic.

The federal secretary for finance shall specify which data concerning payments traffic fully authorized banks must furnish to the Social Accounting Service.

#### Article 124

Basic and other organizations of associated labor and other domestic persons shall pay for goods whose importation is regulated by assignment of a commodity quota, a foreign exchange quota or the issuance of an import permit with the foreign exchange and dinars referred to in Article 122 of this law, within the limits of their right to import such goods.

#### Article 125

Basic and other organizations of associated labor and other domestic persons shall pay for services rendered by foreign persons whose use is governed by special conditions prescribed by the Federal Executive Council with the concurrence of the competent bodies of the republics and autonomous provinces with the foreign exchange and dinars referred to in Article 122 of this law.

#### Article 126

With the concurrence of the competent bodies of the republics and autonomous provinces the Federal Executive Council shall prescribe the conditions under which patents, licenses and other industrial property may be purchased abroad and paid for with the funds referred to in Article 122 of this law.

The Federal Executive Council shall specify the conditions under which patents, licenses and other industrial property may be purchased abroad to meet the needs of national defense and paid for with the funds referred to in Article 122 of this law.

#### Article 127

Organizations of associated labor rendering services in international freight, cargo and passenger transportation shall make collections from domestic persons in dinars for their services on international routes.

Organizations of associated labor which are users of freight services are required at the moment when they realize the inflow of foreign exchange from exports of goods and services to transfer that foreign exchange in the amount of the value of transportation services to the organizations of associated labor referred to in Paragraph 1 of this article.

As an exception to the provisions of Paragraph 1 of this article, organizations of associated labor which are users of transportation services are required when importing goods and at the moment of paying for the imports to credit to organizations of associated labor which are carriers foreign exchange in the amount of the actual costs of transportation between the foreign points.

The Federal Executive Council shall prescribe the conditions and manner of the transfer of foreign exchange realized under Paragraphs 2 and 3 of this article to those rendering services in international freight and passenger traffic and postal, telephone and telegraph service.

#### Article 128

The entire amount of foreign exchange realized by exporting products or components which are involved in long-term production cooperation may be used for imports involved in that cooperation, in accordance with federal law.

#### Article 129

Organizations of associated labor may also hold foreign exchange to be used in carrying out capital investment projects abroad in accounts in foreign banks on the basis of a permit issued by the national bank of the republic or the national bank of the autonomous province under the conditions specified by the National Bank of Yugoslavia.

Organizations of associated labor carrying out capital investment projects abroad must repatriate earnings realized in foreign exchange from each transaction within 90 days from the date when the project was completed. The national bank of the republic and the national bank of the autonomous province may extend that period under the conditions specified by the National Bank of Yugoslavia.

An appeal may be filed with the National Bank of Yugoslavia against a decision of the national bank of a republic or the national bank of an autonomous province rendered under Paragraph 2 of this article.

Organizations of associated labor carrying out capital investment projects abroad may, while those projects are under way, handle foreign exchange, may compute their operating costs and may determine their net earnings from those transactions under the conditions and in the manner prescribed by the Federal Executive Council with concurrence of the competent bodies of the republics and autonomous provinces.

#### Article 130

Organizations of associated labor which act as intermediaries in import and export transactions shall make payments and collections in those transactions with the funds referred to in Article 122 of this law under the conditions prescribed by the Federal Executive Council with the concurrence of the competent bodies of the republics and autonomous provinces.

#### Article 131

Foreign exchange which organizations of associated labor earn in the business of upgrading goods (industrial finishing, processing, dressing or repair) owned by foreign persons shall be regarded as foreign exchange earned by exporting goods and services with respect to acquiring rights under the provisions of this law.

An organization of associated labor shall pay for the services of upgrading domestic goods rendered by foreign persons with the funds referred to in Article 122 of this law, within the framework of regulations governing goods which are exported for upgrading and subsequently imported.

#### Article 132

Organizations of associated labor rendering services in international freight, cargo and passenger transportation shall pay operating expenses abroad with the funds referred to in Article 122 of this law.

The Federal Executive Council shall define what is meant by operating costs abroad which organizations of associated labor are to pay under Paragraph 1 of this article.

## Article 133

Insurance communities and reinsurance communities shall collect insurance premiums and reinsurance premiums from domestic persons and shall pay losses to those persons (reimbursement of loss, face amounts and costs)--in dinars. These communities and other domestic persons shall also use dinars for other payments involved in insurance and reinsurance transactions.

Insurance and reinsurance communities shall collect insurance premiums and reinsurance premiums from foreign persons in foreign exchange or dinars which those foreign persons possess under Articles 120 and 121 of this law, and they shall pay reinsurance premiums and losses to such persons in foreign exchange or dinars. Other payments involved in insurance and reinsurance transactions between insurance communities and foreign persons or between reinsurance communities and foreign persons shall also be made in foreign exchange or dinars.

As an exception to the provisions of Paragraph 1 of this article, the Federal Executive Council may order that certain organizations of associated labor and other public legal persons may pay premiums in foreign exchange and that those organizations may be paid losses or other payments involved in insurance and reinsurance transactions in foreign exchange.

Insurance communities and reinsurance communities shall pay losses, insurance premiums and reinsurance premiums and shall make other payments related to insurance and reinsurance transactions with the dinars and foreign exchange referred to in Article 122 of this law.

The Federal Executive Council shall specify under what conditions and in what cases domestic persons may purchase foreign exchange from an authorized bank up to the amount of dinars collected as reimbursement for loss on the basis of insurance. Domestic persons may use purchased foreign exchange to pay for importation of goods and services covered by insurance claims they have collected. Domestic persons shall pay for such goods and services without restriction even though importation of such goods or services is regulated.

The Federal Executive Council shall specify the conditions under which collection of an insurance claim in transactions involving the export of goods and services shall be regarded as a collection based on exports.

The face amount of an insurance policy covering the insurance referred to in Paragraphs 2 and 3 of this article must be expressed in foreign exchange.

## Article 134

Funds which a foreign party to a contract earns in a joint venture with a domestic organization of associated labor may be transferred abroad up to the amount of one-half of the inflow of foreign exchange achieved by exporting the products and services from that venture.

Funds which a foreign party to a contract earns in a joint venture with a domestic organization of associated labor in the economically underdeveloped

republics or the Socialist Autonomous Province of Kosovo may be transferred abroad up to the amount of the actual share in net income. The transfer shall be made with the funds referred to in Article 122 of this law.

If an investment contract has terminated because of achievement of the goals of the venture or because the time covered by it has expired, if an investment contract has been dissolved for the reasons envisaged by federal law, or if an investment contract has provided that the foreign party to the contract may withdraw part of the funds invested even while the contract is in force, the domestic organization of associated labor shall make the transfer of the funds invested or remainder of the funds invested with the foreign exchange referred to in Article 122 of this law.

If there is no net foreign exchange inflow in a particular year from which a transfer can be made of the funds which the foreign party to the contract has earned in the joint venture, the transfer referred to in Paragraph 1 of this article may be made on the basis of the inflow of foreign exchange in subsequent years.

#### Article 135

A production organization of associated labor which in accordance with regulations makes an investment of capital assets and working capital belonging to the society at large in order to conduct its business activities abroad shall make those investments with the assets referred to in Article 122 of this law.

Organizations of associated labor which have entered into association in order to conduct commercial transactions with goods and services abroad, organizations of associated labor engaged in export and import transactions which are organized and which conduct their business on the principles of mandatory co-operation with production and other organizations of associated labor for which they conduct export or import transactions, and organizations of associated labor engaging in export and import transactions which are required to pool their labor and assets with production and other organizations of associated labor with which they do business may use the funds referred to in Article 122 of this law to make the investments of capital assets and working capital in order to conduct those transactions abroad.

The funds referred to in Article 122 of this law may be used for investment to establish banks abroad in accordance with federal law.

An organization of associated labor which has invested capital assets and working capital belonging to the society at large in an enterprise abroad must repatriate the share of the earnings to which it is entitled within 90 days from expiration of the period covered by the year-end income statement under the statutes of the country in which that enterprise is located.

#### Article 136

Organizations of associated labor which are engaged in exploration, operation, replenishment and maintenance of reserves of ores and other mineral resources

abroad shall pay the expenses of those operations with the funds referred to in Article 122 of this law.

#### Article 137

Organizations of associated labor may use the funds referred to in Article 122 of this law to pay expenses of business trips and advertising abroad, expenses of representative offices and representatives abroad, expenses of advanced professional training of employees abroad, fees and taxes, membership dues and assessments, and other expenses related to the conduct of business abroad.

Business communities, banking organizations, cooperatives, chambers and other general associations, self-managing communities of interest and other self-managing organizations and communities, sociopolitical and other civic organizations, and other legal persons shall use the funds referred to in Article 122 of this law to pay expenses of official travel abroad, expenses of advanced professional training of employees abroad, fees and taxes, membership dues and assessments, and other expenses abroad related to the performance of their activity.

On the basis of the concurrence of the competent bodies of the republics and autonomous provinces and after first obtaining the opinion of the Yugoslav Community, the Federal Executive Council shall prescribe the conditions under which particular expenditures referred to in Paragraphs 1 and 2 of this article may be incurred and paid for.

### VIII. Credit Relations With Foreign Countries

#### 1. General Conditions

#### Article 138

In the context of this law credit relations with foreign countries are understood to consist of the following:

- 1) exports and imports of goods and services on credit, except goods and services for which payment is agreed in less than 90 days (hereafter referred to as "commercial credit");
- 2) credit secured abroad to cover imports of goods and services and credit extended abroad to cover exports of goods and services (hereafter referred to as "commodity credit");
- 3) the securing and extension of financial credit;
- 4) the securing of foreign short-term credit by fully authorized banks on the basis of lines of credit (hereafter referred to as "bank lines of credit");
- 5) the raising of funds by issuing bonds on the foreign financial market;

- 6) the raising of funds on the foreign financial market by refinancing accounts receivable on the basis of credits extended abroad;
- 7) the securing of credit to maintain Yugoslavia's liquidity in international payments;
- 8) the acceptance and placement of deposits and the issuance and acceptance of guaranties, superguaranties and other forms of suretyship in relations with foreign countries.

#### Article 139

The provisions of this law which pertain to funds raised by the securing of financial credits abroad shall apply to funds raised by issuing bonds on the foreign financial market and to funds raised on the foreign financial market by refinancing balances of credits extended abroad.

The manner of the issuance of and trade in bonds on the foreign financial market shall be regulated by federal law.

#### Article 140

The term "commodity credit" refers to credit transactions in which the creditor extends credit to the borrower in order to finance the purchase of goods and payment for services and in which the credit contract specifies the purpose for which the funds are to be used.

The term "bank line of credit" refers to foreign short-term credit to be repaid within 12 months which a fully authorized bank uses from a foreign bank.

#### Article 141

Basic and other organizations of associated labor and other social juridical persons may borrow abroad or may extend credits abroad on the basis of uniform criteria on contracting indebtedness set forth by the Yugoslav Community in collaboration with the republic and provincial communities, with the consent of the Federal Executive Council.

If the uniform criteria referred to in Paragraph 1 of this article are not set forth simultaneously with adoption of joint foreign exchange policy, the Federal Executive Council shall issue criteria within a further period of 15 days.

Basic and other organizations of associated labor and other social juridical persons shall exercise the rights referred to in Paragraph 1 of this article to the certain level established by the credit-guaranty potential of the authorized banks within the limits of the amount envisaged by the projection of Yugoslavia's balance of payments and exchange balance in conformity with the established joint foreign exchange policy, particular consideration being made to the amount of indebtedness of individual entities, their ability to repay in foreign exchange existing and new credits, and the level of the country's indebtedness.

The Federal Executive Council shall by the end of each year for the following year set forth in its act the level to which the authorized banks may conclude credit transactions with foreign countries and issue guaranties for credit transactions with foreign countries.

Within the framework of the criteria set forth as referred to in Paragraph 1 and the volume of indebtedness referred to in Paragraph 3 of this article preference in borrowing abroad shall be given to organizations of associated labor which in their development contribute to achieving the goals set forth and proportions planned in social plans and Yugoslavia's balance of payments and exchange balance, in particular the augmentation of exports, optimum import substitution, stabilization of the domestic market, and to meet the needs of faster development of the economically underdeveloped republics and the Socialist Autonomous Province of Kosovo.

#### Article 142

Basic and other organizations of associated labor and fully authorized banks may issue commodity credit and financial credit on behalf of basic and other organizations of associated labor to borrowers abroad in order to promote exports of Yugoslav goods and services and to organize the sale of Yugoslav goods and services, and they may also extend financial credit for other purposes which promote foreign economic relations, under the conditions prescribed by the Federal Executive Council on the basis of the concurrence of the competent bodies of the republics and autonomous provinces.

#### Article 143

Upon the recommendation of the National Bank of Yugoslavia the Federal Executive Council shall define the conditions under which fully authorized banks may deposit funds in accounts abroad either for an unspecified period with a period of notice required before withdrawal or for periods specified in advance.

#### Article 144

In order to ensure concerted action on the foreign financial market for capital, domestic persons taking credit abroad or extending credit to foreign persons must abide by the conditions that they have set forth in a joint agreement or social compact or self-management accord when they take or extend credit or issue guaranties and other forms of suretyship.

On the basis of the concurrence of the competent bodies of the republics and autonomous provinces and the recommendation of the National Bank of Yugoslavia and after first obtaining the opinion of the Yugoslav Community, the Federal Executive Council shall establish the conditions that shall serve as a framework for the organized action of domestic persons on the foreign financial market for capital.

Remaining within the framework of the conditions referred to in Paragraph 2 of this article, fully authorized banks shall conclude an agreement whereby they

set forth the special conditions under which they shall obtain and extend credit abroad and extend guaranties and other forms of suretyship to cover credit which basic and other organizations of associated labor and other public legal persons take abroad.

If the agreement, social compact or self-management accord referred to in Paragraph 1 of this article is not concluded, the Federal Executive Council shall define the conditions referred to in that paragraph, and they shall remain in effect until the agreement, social compact or self-management accord is concluded.

If no agreement as referred to in Paragraph 3 of this article is concluded, the National Bank of Yugoslavia shall define the special conditions referred to in that paragraph, and they shall remain in effect until the agreement is concluded.

#### Article 145

The following may establish credit relations with foreign countries as referred to in Article 138 of this law:

- 1) basic and other organizations of associated labor and self-managing communities of interest in the production sector, within the limits envisaged by the self-management accord whereby they entered into association;
- 2) fully authorized banks;
- 3) the National Bank of Yugoslavia;
- 4) sociopolitical communities;
- 5) the Federal Directorate for Commerce in and Reserves of Special-Purpose Products.

The domestic persons referred to in Paragraph 1 of this article may establish credit relations and conduct credit transactions with foreign countries provided they furnish the foreign exchange in accordance with this law in order to discharge the obligations they have assumed in connection with those transactions.

The domestic persons referred to in Paragraph 1 of this article may not take credits abroad, issue guaranties or other forms of surety abroad nor perform other acts which precede the conclusion of credit contracts which would create any sort of obligations for the Socialist Federal Republic of Yugoslavia in the domain of credit transactions with foreign countries except the obligations assumed in conformity with the provisions of this law.

#### Article 146

Social juridical persons may make current international payments and establish new credit relations with foreign countries only after meeting obligations abroad which have come due.

Authorized banks may not execute orders of social juridical persons for current payments abroad and may not issue guaranties to establish new credit relations unless such persons have discharged fixed and guaranteed obligations which have come due.

## 2. The Conduct of Credit Transactions With Foreign Countries

### 1) Organizations of Associated Labor

#### Article 147

The organizations and communities referred to in Article 145, Paragraph 1, Subparagraph 1, of this law may take and extend credit abroad, may raise funds by issuing bonds abroad, and may refinance accounts receivable on the basis of credit extended abroad in accordance with their development plans and the established joint policy governing foreign credit, up to the limit fixed on the basis of Article 141 of this law.

#### Article 148

The organizations and communities referred to in Article 145, Paragraph 1, Subparagraph 1, of this law may conduct the transactions referred to in Article 147 of this law under the following conditions:

- 1) if the credit transactions are conducive to conduct of the business or performance of the activity for which they are registered;
- 2) if they meet the conditions of creditworthiness;
- 3) if the credit transaction conforms to the general conditions and limits established by their general self-management act adopted in conformity with the Law on the Monetary System;
- 4) if the managing body of those organizations or communities has made the decision that a specific credit transaction shall be conducted;
- 5) if they have made provision for the foreign exchange required to repay the credit in conformity with this law.

The National Bank of Yugoslavia shall prescribe the conditions that will apply in establishing creditworthiness as referred to in Paragraph 1, Subparagraph 2, of this law.

#### Article 149

The organizations and communities referred to in Article 145, Paragraph 1, Subparagraph 1, of this law shall extend commodity credit and financial credit with the dinars and foreign exchange referred to in Article 122 of this law, except for foreign exchange raised from individual citizens by issuing bonds.

The organizations and communities referred to in Paragraph 1 of this article shall extend the credit referred to in that paragraph for the purposes set forth in Article 142 of this law.

#### Article 150

Credit transactions involving the export and import of goods and services whose export or import is regulated may be conducted only in conformity with regulations governing the export and import of such goods and services.

#### Article 151

The organizations and communities referred to in Article 145, Paragraph 1, Subparagraph 1, of this law shall pay their foreign exchange obligations abroad arising out of commercial credit, commodity credit and financial credit with the foreign exchange and dinars referred to in Article 122 of this law, but not including foreign exchange raised by taking credit abroad and foreign exchange raised from private individuals by issuing bonds.

On the basis of the concurrence of the competent bodies of the republics and autonomous provinces the Federal Executive Council shall prescribe the conditions under which the funds referred to in Paragraph 2 of this article may be used to discharge obligations arising out of commercial credit, commodity credit and financial credit that have been taken.

#### Article 152

The organizations and communities referred to in Article 145, Paragraph 1, Subparagraph 1, of this law may use funds raised on the basis of financial credit for the following purposes:

- 1) to make payments abroad in conformity with this law;
- 2) to extend credit and to make other investments abroad;
- 3) to enter into association or to pool foreign exchange in accordance with the provisions of this law.

If the financial credit is entirely or partially used to extend credit abroad or for other placement abroad, obligations under the financial credit that has been taken shall also be discharged with the foreign exchange from installments paid against those credits and with the foreign exchange obtained in the form of earnings (income from the placement of those credits).

The organizations and communities referred to in Article 145, Paragraph 1, Subparagraph 1, of this law may also use funds obtained through collection of installments and income earned on credits extended abroad to repay financial credit that has been taken.

## Article 153

An organization or community as referred to in Article 145, Paragraph 1, Subparagraph 1, of this law may issue a guaranty or other form of suretyship in connection with a credit transaction abroad undertaken by another organization of associated labor or community if it has concluded with it a self-management accord or a contract to pool foreign exchange under the provisions of this law.

An organization or community as referred to in Article 145, Paragraph 1, Subparagraph 1, of this law may issue guarantees and other forms of suretyship to cover specific credit transactions which are being conducted by an enterprise which it has established abroad or a mixed enterprise which has been established with the assets of that organization or community and assets of foreign legal and natural persons.

On the recommendation of the Yugoslav Community the Federal Executive Council shall specify for which credit transactions as referred to in Paragraph 2 of this article the organizations and communities referred to in Article 145, Paragraph 1, Subparagraph 1, of this law may issue guarantees and other forms of suretyship.

An organization or community as referred to in Article 145, Paragraph 1, Subparagraph 1, of this law may issue a guaranty or other form of suretyship as referred to in Paragraphs 1 and 2 of this article if it meets the conditions of creditworthiness and if the governing body of the organization or community has passed the decision to undertake each individual guaranty or suretyship.

The organization or community acting as guarantor shall meet obligations arising out of suretyship with the foreign exchange referred to in Article 151 of this law.

## Article 154

If one or several basic organizations of associated labor so decide, an internal bank may on their account conclude contracts concerning commercial and financial credit with the account of those organizations within the limits of the authority granted it and in conformity with law.

### 2) Fully Authorized Banks

## Article 155

Fully authorized banks may conduct credit transactions with foreign countries as referred to in Article 138, Subparagraphs 2 through 6 and Subparagraph 8, of this law in order to conduct, expand and promote activity of organizations of associated labor which is in accordance with the development plans of those organizations and the established policy governing credit relations with foreign countries.

Fully authorized banks shall conduct credit transactions in their own name and on the account of organizations of associated labor and other public legal persons.

Fully authorized banks may conclude contracts and secure credit or extend credit abroad only up to the amount set on the basis of Article 141 of this law.

The volume of short-term indebtedness to be used solely for overcoming seasonal discrepancies in the current inflow of foreign exchange and the outflow of banks and their customers (the bank's short-term credit line and acceptance of short-term deposits) shall be fixed by the Federal Executive Council on the recommendation of the National Bank of Yugoslavia.

#### Article 156

A fully authorized bank may conduct credit transactions with foreign countries as referred to in Articles 138 and 155 of this law under the following conditions:

- 1) if it meets the conditions of creditworthiness;
- 2) if the governing body of the organization of associated labor has decided that the bank shall conduct the credit transaction referred to in Article 138, Subparagraphs 2, 3, 5 and 8, of this law on the account of that organization;
- 3) if the competent body of the bank has decided that the bank shall take short-term credit;
- 4) if the credit transaction is registered under Article 180 of this law;
- 5) if the decision referred to in Article 148, Paragraph 1, Subparagraph 4, of this law has been made for each individual guaranty, superguaranty or other form of suretyship;
- 6) if it abides by the special conditions referred to in Article 144 of this law.

#### Article 157

A fully authorized bank may extend commercial and financial credit from the funds and under the conditions referred to in Articles 142 and 151 of this law.

#### Article 158

In concluding a contract to secure financial credit abroad a fully authorized bank shall abide by the conditions concerning the taking of that credit which it has established by written contract with the organization or organizations of associated labor on whose behalf it is taking the credit. That contract may also specify the purpose for which the funds of the financial credit are to be used.

## Article 159

Fully authorized banks may also conclude a special long-term or intermediate-term commercial credit abroad on the basis of a continuing agreement or line of credit.

Fully authorized banks may use credit established under the provision of Paragraph 1 of this article only on the account of an organization of associated labor. Banks authorized to handle international transactions may use this kind of foreign credit if in every individual case the organizations of associated labor sign a written contract to the effect that they accept the conditions and the purpose for which the continuing agreement or line of credit is to be used.

## Article 160

Fully authorized banks may use foreign exchange which they obtain on the basis of financial credit in accordance with the order of the organization of associated labor--for the purposes referred to in Article 152, Paragraph 1, of this law.

Obligations related to the credit referred to in Paragraph 1 of this article shall be discharged in accordance with Article 151, Paragraphs 1 and 2, and Article 152, Paragraph 3, of this law.

## Article 161

Fully authorized banks may accept deposits of foreign persons in accordance with the special conditions set forth under Article 144 of this law.

Fully authorized banks may use foreign exchange which they receive on the basis of deposits from abroad for the following purposes:

- 1) to make payments abroad in accordance with this law;
- 2) to extend credit and to make other investments abroad.

Fully authorized banks shall return the deposits and pay interest on deposits referred to in Paragraph 1 of this article with the foreign exchange which they possess in accounts abroad, foreign exchange purchased on the foreign exchange market, and foreign exchange received as credit extended or repaid.

## Article 162

Fully authorized banks shall use bank lines of credit to make payments which organizations of associated labor and other public legal persons may make with the foreign exchange referred to in Article 122 of this law.

Banks shall repay the short-term credit referred to in Paragraph 1 of this article with the funds which they hold in accounts abroad and foreign exchange purchased on the foreign exchange market.

### Article 163

Fully authorized banks may issue guaranties, superguaranties and other forms of suretyship to cover foreign transactions concluded by the following:

- 1) by organizations of associated labor and other public legal persons if they meet the conditions referred to in Article 148 of this law;
- 2) by other fully authorized banks if they meet the conditions referred to in Article 156 of this law.

Fully authorized banks may issue guaranties, superguaranties and other forms of suretyship on behalf of foreign persons to cover certain transactions abroad, which they shall do for the purposes and under the conditions set forth by the Federal Executive Council on the recommendation of the Yugoslav Community.

### Article 164

Fully authorized banks may issue guaranties, superguaranties and other forms of suretyship if the self-management accord concerning the entry into association to form the bank has specified the manner in which foreign exchange obligations based on guaranties, superguaranties and other forms of suretyship shall be discharged, in accordance with the provisions of Article 122 of this law.

Organizations of associated labor and other public legal persons on whose behalf a fully authorized bank has made a payment on the basis of a guaranty, superguaranty or other form of suretyship must discharge the obligations incurred thereby from the resources and according to the provisions of Article 151 of this law.

If an organization of associated labor fails to meet the obligation it has incurred within 30 days of the date when payment was made on the basis of the guaranty, superguaranty and other form of suretyship, other organizations of associated labor which have concluded a self-management accord as referred to in Paragraph 1 of this article shall discharge the obligation in its place with the foreign exchange referred to in Article 151 of this law, in accordance with that self-management accord.

### Article 165

Organizations of associated labor and other public legal persons which have outstanding obligations which have come due on the basis of guaranties, superguaranties and other forms of suretyship issued on the basis of Article 164 of this law may not conclude new credit transactions with foreign countries until they have discharged their obligations in the manner envisaged in Article 164, Paragraph 2, of this law.

Fully authorized banks may not issue guaranties, superguaranties and other forms of suretyship on behalf of the organizations and persons referred to in

Paragraph 1 of this article until those organizations and persons discharge their obligations in the manner envisaged in Article 164, Paragraph 2, of this law.

#### Article 166

A self-management accord among fully authorized banks shall specify which types of guaranties, superguaranties and other forms of suretyship those banks may issue in transactions with foreign countries.

If the self-management accord referred to in Paragraph 1 of this article is not concluded, the National Bank of Yugoslavia shall specify which types of guaranties, superguaranties and other forms of suretyship fully authorized banks may issue in transactions with foreign countries.

#### 3) The National Bank of Yugoslavia

#### Article 167

The National Bank of Yugoslavia may conclude credit transactions with foreign countries in its name and on its own account solely in order to maintain Yugoslavia's liquidity in international payments in conformity with the medium-term plan and policy governing foreign exchange reserves, and also within the limits envisaged by the projection of Yugoslavia's balance of payments.

The National Bank of Yugoslavia may take credit for the purposes referred to in Paragraph 1 of this article to be repaid over a period longer than 1 year solely on the basis of a federal law which shall state the purpose of the use of these credits. This restriction does not apply to credit which the National Bank of Yugoslavia secures from the International Monetary Fund.

Credit may not be extended in dinars on the basis of credit taken abroad in order to maintain Yugoslavia's liquidity in international payments.

#### Article 168

The National Bank of Yugoslavia may use the credits taken under Article 167 of this law for the following purposes:

- 1) to replenish foreign exchange reserves,
- 2) to repay fixed and guaranteed obligations under credits which it has taken and has used,
- 3) for a temporary loan to an authorized bank.

#### Article 169

The foreign exchange referred to in Article 168, Subparagraph 3, of this law may be used at the request of an authorized bank to pay fixed and guaranteed obligations under long-term, medium-term and short-term foreign credits which

have been taken by domestic persons under Article 145 of this law who are not realizing a sufficient inflow in convertible foreign exchange to meet the obligations which have come due.

The authorized bank referred to in Paragraph 1 of this article is required to repay the temporary loan referred to in Article 168, Subparagraph 3, of this law and to bear the costs incurred in the use of the temporary loan.

#### Article 170

The National Bank of Yugoslavia shall conclude a contract with the bank referred to in Article 168, Subparagraph 3, of this law which shall state the conditions and manner of repayment which the banks must meet and the documentation which they must append to the application for the temporary loan.

#### Article 171

The Federal Executive Council shall issue decisions granting temporary loans to banks as referred to in Article 168, Subparagraph 3, of this law on the basis of the recommendation of the National Bank of Yugoslavia.

#### Article 172

If it does not live up to the contract referred to in Article 170 of this law, the National Bank of Yugoslavia shall cease all payments to the fully authorized bank which is the user of the temporary loan until the obligations of that bank abroad have been discharged.

#### Article 173

The National Bank of Yugoslavia may issue guaranties, superguaranties and other forms of suretyship to cover credit transactions with foreign countries solely on the basis and under the conditions set forth in federal law or on the basis of an international or intergovernmental treaty which has been ratified, and they shall be issued for each individual credit or for more than one credit extended by a single lender.

The act of ratification of the treaty referred to in Paragraph 1 of this article shall state the conditions under which the National Bank of Yugoslavia shall issue the guaranty, superguaranty or other form of suretyship.

The procedure referred to in Article 164, Paragraphs 2 and 3, and Article 165 of this law shall apply to the guaranties, superguaranties and other forms of suretyship issued by the National Bank of Yugoslavia under Paragraph 1 of this article.

The National Bank of Yugoslavia may issue guaranties, superguaranties and other forms of suretyship on the basis of a decision of the Federal Executive Council to cover credit used by the Federal Directorate for Commerce in and Reserves of Special-Purpose Products.

#### 4) Sociopolitical Communities

##### Article 174

The Federation shall establish credit relations with foreign countries on the basis of a federal law enacted for each individual credit. Such law shall specify the purpose, the resources for repayment of the credit taken abroad and the purpose and source of the funds from which the credit is granted.

Credit transactions with foreign countries to meet the needs of national defense shall be based on and conducted according to a decision of the Federal Executive Council, and those coming under the medium-term plan governing the development, building and equipping of the Yugoslav Armed Forces shall conform to the Yugoslav social plan.

##### Article 175

The Federation may assume obligations as a guarantor or superguarantor on the basis of a federal law enacted specifically to undertake obligations involved in each guaranty or superguaranty.

The Federation may assume the obligation referred to in Paragraph 1 of this article if the user of the credit or the first guarantor commits himself by contract to execute all the contractual obligations from his own resources.

The provisions of Articles 164 and 165 of this law shall apply to guaranties and superguaranties which the Federation issues under Paragraph 1 of this article.

##### Article 176

If the discharge of certain obligations set forth in the projection of Yugoslavia's balance of payments so requires, a federal law may state that the Federation and the National Bank of Yugoslavia may conclude several credit transactions with foreign countries and that the Federation or the National Bank of Yugoslavia may issue guaranties and superguaranties on behalf of the Federation up to the amount and under the conditions set forth in that law.

On the basis of the authority set forth in federal law the Federal Executive Council may prescribe the conditions under which the National Bank of Yugoslavia may issue guaranties, superguaranties and other forms of suretyship in the name of the Federation to meet the needs of basic and other organizations of associated labor, if the republics and autonomous provinces guarantee to discharge the obligations incurred by the National Bank of Yugoslavia on the basis of that suretyship.

##### Article 177

The republics, the autonomous provinces and other sociopolitical communities may take credit abroad only if the taking of that credit is prescribed by law or an order issued on the basis of law, in accordance with the established

policy governing credit relations with foreign countries and agreements concerning the bases of the social plans of the republics and autonomous provinces.

The republics, the autonomous provinces and other sociopolitical communities may take credit abroad only up to the limit on indebtedness fixed for the current year under Article 24 of this law.

#### Article 178

The republics and autonomous provinces may issue guaranties and superguaranties to cover credit taken abroad if the user of the credit or first guarantor commits himself in a contract that he will discharge all the contractual obligations with his own funds.

The provisions of Articles 164 and 165 of this law shall apply to obligations arising out of guaranties and superguaranties which the republics and autonomous provinces issue.

The republics and autonomous provinces may issue guaranties and superguaranties as referred to in Paragraph 1 of this article only if they have prescribed their issuance in law and furnish the funds necessary for that purpose.

#### 5) The Federal Directorate for Commerce in and Reserves of Special-Purpose Products

#### Article 179

The Federal Directorate for Commerce in and Reserves of Special-Purpose Products shall establish credit relations with foreign countries as referred to in Article 138 of this law and shall conduct credit transactions with foreign countries within the limits of its competence on the basis of an order of the Federal Executive Council.

#### 3. The Registration and Recording of Credit Transactions With Foreign Countries

#### Article 180

Credit transactions with foreign countries must be registered. All changes in contractual conditions and the dissolution of contracts concerning credit transactions with foreign countries are also subject to registration.

The National Bank of Yugoslavia shall prescribe which transactions referred to in Article 138, Subparagraph 7, of this law are subject to mandatory registration.

Credit transactions referred to in Paragraphs 1 and 2 of this article shall be registered with the national banks of the republics and the national banks of the autonomous provinces only with prior consent of the National Bank of Yugoslavia furnished in writing.

The credit transactions referred to in Articles 174 and 179 of this law shall be registered with the National Bank of Yugoslavia.

The National Bank of Yugoslavia shall prescribe the manner and deadlines for registration of credit transactions with foreign countries.

The National Bank of Yugoslavia may prescribe compulsory registration of the intention to conclude credit transactions with foreign countries, aside from the credit transactions referred to in Articles 174 and 179 of this law.

The National Bank of Yugoslavia shall prescribe the conditions and documentation necessary for the registration of credit transactions with foreign countries.

#### Article 181

The national banks of the republics and the national banks of the autonomous provinces shall keep records on credit transactions concluded with foreign countries, and the National Bank of Yugoslavia shall keep records on credit transactions concluded under Articles 174 and 179 of this law.

Organizations of associated labor, authorized banks and other public legal persons must keep records on the conclusion, use, repayment and extension of credit abroad and collections made on the basis of credit transactions with foreign countries.

Organizations of associated labor, authorized banks and other public legal persons must submit reports to the national banks of the republics and the national banks of the autonomous provinces concerning the information referred to in Paragraph 2 of this article, by the dates and in the manner specified by the National Bank of Yugoslavia.

The national banks of the republics and the national banks of the autonomous provinces shall furnish the National Bank of Yugoslavia data from records on credit transactions concluded with foreign countries and the information and reports referred to in Paragraph 3 of this article by the date which it specifies. On the basis of that information the National Bank of Yugoslavia shall keep records on credit transactions with foreign countries for Yugoslavia as a whole.

The National Bank of Yugoslavia shall submit information from the records referred to in Paragraph 4 of this article to the Federal Executive Council, to the executive councils of the assemblies of the republics and the executive councils of the assemblies of the autonomous provinces.

The national banks of the republics and the national banks of the autonomous provinces shall furnish the data referred to in Paragraphs 1 and 3 of this article to the competent bodies of the republics and autonomous provinces, respectively.

## IX. Temporary Restrictions on International Payments

### Article 182

If there is a sizable failure to fulfill the goals of joint foreign exchange policy and the proportions in the unified projection of Yugoslavia's balance of payments and exchange balance, if disturbances occur on the unified Yugoslav market, or if there are circumstances which might threaten achievement of the goals of the established policy governing foreign economic relations, the Federal Executive Council may prescribe the following:

- 1) introduction of special measures and restrictions in current transactions, as follows:
  - a) restriction of certain rights to pay for certain goods and services;
  - b) the obligation to post dinar deposits in the value of certain goods and services being imported and for the use of foreign credits;
- 2) introduction of special measures and restrictions in financial transactions;
- 3) introduction of special dinar deposits;
- 4) introduction of special fees on all payments being made to foreign countries;
- 5) measures restricting the amount of foreign exchange which can be used for making payments abroad;
- 6) measures prohibiting certain payments with foreign persons and the taking or granting of financial credits in relations with foreign countries;
- 7) measures which prohibit the purchase and sale of certain currencies on the unified foreign exchange market;
- 8) measures restricting the carrying in of dinars from abroad or the carrying out of dinars to foreign countries and measures restricting the carrying of foreign exchange out of the country;
- 9) measures restricting other financial transactions with foreign countries.

The Federal Executive Council shall notify the SFRY Assembly of measures taken pursuant to Paragraph 1 of this article within a period of 30 days from the date when they are taken.

### Article 183

When the measures enumerated in Article 182 of this law are being prescribed, consideration shall be given to the stimulation of exports and the joint development policy that had been agreed on, including the accelerated development

of the economically underdeveloped republics and the Socialist Autonomous Province of Kosovo.

The regulation which introduces any of the measures enumerated in Article 182 of this law must state the period the measure will be in effect, but a measure that has been introduced must be revoked as soon as the grounds on which it was introduced cease to obtain.

#### Article 184

So as to prevent the disturbances referred to in Article 182 of this law the competent body of the republic and the autonomous province, after first obtaining the opinion of the republic or provincial community, may fix the maximum amount of foreign exchange which certain domestic persons may use to make payments abroad within a certain period of time.

The criteria that shall apply to adoption of the measure referred to in Paragraph 1 of this article shall be set forth in an agreement among the republics and autonomous provinces. The absence of an agreement shall not hinder the republic or autonomous province from adopting that measure on its own.

#### Article 185

The temporary restrictions on international payments enumerated in Article 182 of this law, insofar as they affect the importation of armament and military equipment and components, semifinished goods intended for production of armaments and military equipment, and the capital goods used for production of armaments and military equipment shall be prescribed by the Federal Executive Council, which shall give consideration to implementation of the program for equipping the armed forces of the SFRY.

### X. The Foreign Exchange Transactions of Banks

#### Article 186

Transactions in international payments, credit transactions with foreign countries, foreign currency transactions and exchange services shall be conducted in Yugoslavia by banks which meet the conditions prescribed for performance of those transactions.

Fully authorized banks shall be entered in a separate register kept by the National Bank of Yugoslavia.

#### Article 187

Fully authorized banks may use their holdings of foreign exchange based on claims on foreign banks to make payments abroad in conformity with this law.

The National Bank of Yugoslavia, with concurrence of the Federal Executive Council, shall state which foreign currencies represented by the claims referred to in Paragraph 1 of this article fully authorized banks may not use for payments abroad.

### Article 188

An authorized bank may convert foreign exchange in a foreign exchange account for domestic and foreign persons at their request.

If exceptional circumstances so require, the National Bank of Yugoslavia may order a temporary restriction on the conversion of foreign exchange referred to in Paragraph 1 of this article.

### Article 189

The national banks of the republics and the national banks of the autonomous provinces shall grant banks the authority to handle transactions in international payments and credit transactions with foreign countries and to handle foreign currency transactions in Yugoslavia.

The conditions for the granting of authority referred to in Paragraph 1 of this article shall be prescribed by the Federal Executive Council on the basis of the concurrence of the competent bodies of the republics and autonomous provinces.

The authorization referred to in Paragraph 1 of this article may also be granted to the Postal Savings Bank within the limits of its business operation as set forth in federal law.

### Article 190

Basic organizations of associated labor may in a self-management accord commission an internal bank to conduct on their account the foreign exchange and foreign currency transactions which those organizations may conduct, specifically the following:

- 1) the management of foreign exchange accounts of those organizations in authorized banks;
- 2) spot purchases and sales of foreign exchange in authorized banks;
- 3) the keeping of records on investment and distribution of foreign exchange which has been pooled.

### Article 191

The National Bank of Yugoslavia, the national banks of the republics and the national banks of the autonomous provinces shall organize the keeping of records on international payments and other data in the field of foreign exchange transactions.

The National Bank of Yugoslavia, the national banks of the republics and the national banks of the autonomous provinces shall keep records on the data referred to in Paragraph 1 of this article, in the manner ordered by the National Bank of Yugoslavia.

Authorized banks, organizations of associated labor and other legal persons must supply reports on the data referred to in Paragraph 2 of this article to the national bank of the republic or national bank of the autonomous province in the manner and by the date ordered by the National Bank of Yugoslavia.

## XI. Foreign Exchange Reserves

### Article 192

Yugoslavia's foreign exchange reserves consist of the following:

- 1) holdings in accounts abroad of the National Bank of Yugoslavia, authorized banks and other domestic persons;
- 2) securities denominated in foreign monetary units held by the National Bank of Yugoslavia, authorized banks and organizations of associated labor;
- 3) monetary gold;
- 4) effective foreign currency.

Yugoslavia's foreign exchange reserves consist of permanent foreign exchange reserves and current foreign exchange reserves.

Permanent foreign exchange reserves represent that portion of Yugoslavia's total foreign exchange reserves which ensures minimum liquidity to discharge obligations and facilitate the necessary imports.

Current foreign exchange reserves represent that portion of Yugoslavia's total foreign exchange reserves which ensures the liquidity of international payments in conformity with the proportions envisaged in Yugoslavia's balance of payments and exchange balance.

Balances in clearing accounts shall be indicated separately.

### Article 193

Yugoslavia's foreign exchange reserves shall be used to maintain the country's overall liquidity in international payments and for interventions on the unified foreign exchange market in conformity with the established policy governing the rate of exchange of the dinar.

### Article 194

The policy governing foreign exchange reserves, which constitutes an integral part of joint foreign exchange policy, includes fixing the volume of Yugoslavia's total foreign exchange reserves and the manner of their creation and use, and also guidelines governing interventions on the unified foreign exchange market using foreign exchange reserves.

## Article 195

Pursuant to Articles 193 and 194 of this law and consistent with the agreement on the basic components of the Yugoslav social plan and the joint foreign exchange policy, the Federal Executive Council shall fix the minimum amount of necessary permanent foreign exchange reserves for every year and shall establish guidelines governing their creation and use.

The volume of foreign exchange transactions envisaged in the projection of Yugoslavia's balance of payments shall be used as a basis for establishing permanent foreign exchange reserves.

On the basis of concurrence of the competent bodies of the republics and autonomous provinces and on the recommendation of the National Bank of Yugoslavia, the Federal Executive Council shall fix the minimum amount of current foreign exchange reserves for the year or quarterly within any particular year in conformity with the projection of Yugoslavia's balance of payments.

## Article 196

The National Bank of Yugoslavia and fully authorized banks shall handle foreign exchange reserves in Yugoslavia in conformity with the established policy governing foreign exchange reserves.

Permanent foreign exchange reserves shall be handled by the National Bank of Yugoslavia. On recommendation of the National Bank of Yugoslavia the Federal Executive Council shall decide on the placement and use of permanent foreign exchange reserves.

Foreign exchange reserves which consist of balances of authorized banks in their accounts abroad shall be handled by those banks.

Should the circumstances accrue that are referred to in Article 182 of this law, the Federal Executive Council may adopt temporary restrictions on the use of current foreign exchange reserves.

The National Bank of Yugoslavia shall submit to the Federal Executive Council and the SFRY Assembly reports on implementation of the policy of foreign exchange reserves as necessary, but at least semiannually.

## Article 197

The National Bank of Yugoslavia shall purchase foreign exchange for Yugoslavia's foreign exchange reserves at the interbank meeting and abroad.

The National Bank of Yugoslavia may contract indebtedness abroad in order to maintain Yugoslavia's liquidity in international payments, which shall be understood to include maintaining the established volume of Yugoslavia's foreign exchange reserves, in conformity with the provisions of Article 167 of this law.

## XII. Foreign Exchange Control

### Article 198

Foreign exchange control includes enforcement of regulations and measures, social compacts and self-management accords in the field of foreign exchange transactions and credit relations with foreign countries (hereafter referred to as "foreign exchange control").

International payments, the earning, acquisition, disposition and pooling of foreign exchange, transactions involving foreign currencies, credit transactions with foreign countries, the carrying of dinars, foreign exchange, securities and gold into and out of the country, and other foreign exchange transactions in Yugoslavia and abroad are subject to foreign exchange control.

Foreign exchange control is effected by the Federal Secretariat for Finance, the Federal Foreign Exchange Inspectorate, the National Bank of Yugoslavia, the national banks of the republics, the national banks of the autonomous provinces and customs authorities.

In addition to the agencies referred to in Paragraph 3 of this article, foreign exchange control to enforce the regulations and measures adopted by the competent bodies of the republics and autonomous provinces and foreign exchange control to enforce self-management accords or social compacts in the field of foreign exchange transactions in which the republics and autonomous provinces have been participants--shall be exercised by the competent bodies of the republics and autonomous provinces.

Foreign exchange control to protect the rights of the workers and organizations of associated labor shall be exercised within the organization of associated labor not only by the agencies referred to in Paragraphs 3 and 4 of this article, but also by the bodies or agencies designated in the general self-management acts of the organization of associated labor.

### Article 199

The Federal Foreign Exchange Inspectorate shall oversee enforcement of the regulations and measures of federal bodies and agencies and self-management accords in the field of foreign exchange transactions and social compacts in the field of foreign exchange transactions to which federal bodies and agencies are a party.

The Federal Foreign Exchange Inspectorate shall exercise foreign exchange control over basic and other organizations of associated labor, authorized banks, self-managing communities of interest and other self-managing organizations and communities, sociopolitical communities and their bodies, agencies and organizations, sociopolitical organizations and other civic organizations, cooperatives, business communities of organizations of associated labor abroad, funds, and other legal persons and natural persons.

## Article 200

The National Bank of Yugoslavia shall exercise foreign exchange control over enforcement of regulations and measures of federal bodies, agencies and organizations by the national banks of the republics and the national banks of the autonomous provinces and by authorized banks in that it shall examine reports on the exercise of control which those banks submit to it and in that it shall directly examine the conduct of their business which pertains to that control.

The conduct of business by the national banks of the republics and the national banks of the autonomous provinces for purposes of monitoring foreign exchange control exercised by those banks shall be examined in the manner defined by the National Bank of Yugoslavia.

## Article 201

The national banks of the republics and the national banks of the autonomous provinces shall exercise foreign exchange control over authorized banks.

In the exercise of foreign exchange control of authorized banks the national banks of the republics and the national banks of the autonomous provinces may examine relevant documentary material held by organizations of associated labor and other participants in foreign exchange transactions and in credit relations with foreign countries.

The National Bank of Yugoslavia shall prescribe the manner in which the foreign exchange control of authorized banks shall be exercised.

If in exercising foreign exchange control the national bank of a republic or the national bank of an autonomous province establishes an irregularity in the operation of an authorized bank, it shall issue it an order to correct the irregularity and to take other relevant measures as established by law within a specified period of time.

The authorized bank may file an appeal with the National Bank of Yugoslavia against an order issued under Paragraph 4 of this article.

## Article 202

The national banks of the republics and the national banks of the autonomous provinces shall exercise foreign exchange control over organizations of associated labor and other domestic persons by examining the papers and documents submitted to them.

The foreign exchange control referred to in Paragraph 1 of this article, insofar as it pertains to transactions to meet the needs of the Yugoslav People's Army and other needs of national defense which are the responsibility of the Federal Secretariat for National Defense or the Federal Directorate for Commerce in and Reserves of Special-Purpose Products, shall be exercised by the National Bank of Yugoslavia.

The examination of documents referred to in Paragraph 1 of this article shall include a specific check on the following:

- 1) the earning and use of the right to pay for and collect for goods and services in the conduct of business with foreign countries;
- 2) the importation of goods and services that have been paid for and collection of goods and services that have been exported;
- 3) special accounting procedures used in business transactions with foreign countries.

In exercising the foreign exchange control referred to in Paragraphs 1 through 3 of this article the National Bank of Yugoslavia, the national banks of the republics and the national banks of the autonomous provinces may examine the relevant documents in the possession of organizations of associated labor and other domestic persons.

The federal secretary for finance, in agreement with the federal secretary for foreign trade, but on the recommendation of the National Bank of Yugoslavia, shall prescribe which documents referred to in Paragraph 1 of this article must be submitted to the national bank of the republic and the national bank of the autonomous province and the period of time within which this must be done.

#### Article 203

Domestic persons who are subject to foreign exchange control must allow agencies and offices authorized to exercise foreign exchange control to examine the conduct of their business and, at their request, must make available to them or submit to them the necessary documents and furnish them the data they request.

Domestic persons must keep records on every foreign exchange transaction and credit transaction concluded with foreign countries, concerning the completion of those transactions, and concerning payments and collections related to those transactions.

The obligations of domestic persons referred to in Paragraphs 1 and 2 of this article also pertain to the conduct of business by business units and organizations which domestic persons have established abroad or in whose establishment they have participated.

The federal secretary for finance shall prescribe the manner in which the records referred to in Paragraph 2 of this article shall be kept.

#### Article 204

Amounts of dinars over and above the amount and denominations allowed to be carried from Yugoslavia or to be carried into Yugoslavia and which a domestic or foreign traveler has not declared to customs authorities at the border shall be temporarily confiscated in exchange for a receipt.

The decision to confiscate or to return all or part of dinars temporarily confiscated under Paragraph 1 of this article shall be made in proceedings for foreign exchange violations (misdemeanors). This decision shall also be made if misdemeanor proceedings cannot be conducted because conditions do not obtain for liability for a misdemeanor or because of the death of the offender or because the offender's identity is unknown or because the offender is not accessible to the authorities competent to conduct proceedings.

Declared amounts of dinars which exceed the amount and denominations allowed to be carried from Yugoslavia or carried into Yugoslavia shall be deposited in a special account of the Federation which is kept in the Social Accounting Service of Yugoslavia until proceedings are completed.

Declared amounts of dinars which exceed the amount and denominations which may be carried from Yugoslavia shall be returned to the traveler if they do not constitute a foreign exchange violation.

Declared amounts of dinars which exceed the amount and denominations which may be carried into Yugoslavia shall be returned to the traveler upon his departure from Yugoslavia if they do not constitute a foreign exchange violation and if within 1 year from the date of the confiscation the traveler submits a petition for recovery of those dinars.

#### Article 205

Foreign exchange which a domestic traveler attempts to carry out of Yugoslavia contrary to Article 95 of this law without a declaration to customs authorities at the border shall be temporarily confiscated, and a receipt shall be given.

The decision on confiscation or partial or complete return of temporarily confiscated foreign exchange under Paragraph 1 of this article shall be made in proceedings for foreign exchange violations. This decision shall also be made if proceedings for the violation may not be conducted because conditions do not obtain for liability for a misdemeanor or because the offender has died or because the offender's identity is unknown or because the offender is not accessible to the authorities competent to conduct proceedings.

Declared foreign exchange exceeding the amount and denominations which may be carried from Yugoslavia shall be sent to the National Bank of Yugoslavia.

The foreign exchange declared under Paragraph 3 of this article shall be returned to the traveler unless it constitutes a foreign exchange violation.

#### Article 206

Domestic and foreign persons may file an appeal with the Federal Secretariat for Finance against a decision made in the proceedings referred to in Articles 204 and 205 of this law.

#### Article 207

Customs authorities shall check the dinars, foreign exchange, securities and gold which domestic and foreign travelers are carrying out of the country and shall check the dinars which those travelers are carrying into the country if a regulation has restricted the carrying of dinars into the country.

The examination referred to in Paragraph 1 of this article shall be conducted by customs authorities according to regulations governing procedure of customs examination in international passenger traffic.

#### Article 208

Agencies and offices authorized to conduct foreign exchange control must make available to one another the data which they have and which are necessary to exercise foreign exchange control, must report their findings to bodies for workers' self-management control, and, when necessary, must extend technical aid to participants in foreign exchange and foreign trade transactions and credit transactions with foreign countries for purposes of proper enforcement of regulations.

#### Article 209

The Federal Foreign Exchange Inspectorate shall inform the competent body of the republic or autonomous province about the situation it has found in exercising foreign exchange control within that republic or autonomous province.

#### Article 210

If in exercise in foreign exchange control the Federal Foreign Exchange Inspectorate finds an illegality or irregularity in the conduct of foreign exchange or foreign trade transactions or credit transactions with foreign countries, or if it finds that measures ordered by a competent authority have not been carried out, it shall issue an order that the illegalities or irregularities detected be corrected or that the effective measures that have been ordered be carried out, fixing the date by which this must be done, and it shall also take other measures envisaged by law.

An appeal may be filed with the Federal Secretariat for Finance against the decision referred to in Paragraph 1 of this article.

On the recommendation of the Federal Foreign Exchange Inspectorate the Federal Secretariat for Finance may postpone execution of the decision referred to in Paragraph 1 of this article at the request of the relevant party. An appeal may not be filed against a decision rejecting postponement of execution of the decision referred to in Paragraph 1 of this article.

If in its foreign exchange control of a government body or agency the Federal Foreign Exchange Inspectorate finds an illegality or irregularity in the conduct of foreign exchange or foreign trade transactions or credit transactions with foreign countries, or if it finds that measures ordered by a competent

body or agency have not been carried out, it shall submit a report on this to the Federal Secretariat for Finance.

#### Article 211

If the illegal act detected constitutes a crime, economic offense or misdemeanor, the body or office competent to exercise foreign exchange control must file charges with the agency competent to institute or to conduct proceedings.

If the agency or officer for the exercise of foreign exchange control finds that an organization of associated labor is not adhering to good business practices and business ethics in its foreign exchange or foreign trade transactions or in conduct of credit transactions with foreign countries, it shall notify the competent economic chamber to that effect.

If a foreign exchange inspector--responsible individual in the National Bank of Yugoslavia, the national bank of the republic or the national bank of the autonomous province or in a social accounting service does not file charges in good time to institute proceedings because of the criminal act or economic offense committed, it shall be considered that he has committed a very serious breach of his work duties.

The individual referred to in Paragraph 2 of this article who has committed a very serious breach of work duties may not perform the function of an inspector.

#### Article 212

If regulations envisage the preventive measure or security measure of confiscating property involved in a crime or an economic offense or a misdemeanor that has been committed, in exercising foreign exchange control the Federal Foreign Exchange Inspectorate may temporarily confiscate property with which a crime or economic offense or misdemeanor has been committed or with which an intended crime, economic offense or misdemeanor was to be committed, or which came into being by the commission of a crime, economic offense or misdemeanor. The Federal Foreign Exchange Inspectorate shall issue a receipt for the property confiscated.

The Federal Foreign Exchange Inspectorate must immediately report confiscated property to the body competent to conduct proceedings.

#### Article 213

The Federal Foreign Exchange Inspectorate shall be competent to carry out the decision enacted on the basis of Article 210, Paragraph 1, of this law. The Federal Foreign Exchange Inspectorate shall carry out decisions through the authorized banks and the Social Accounting Service in which the foreign exchange accounts or clearing accounts and other accounts of offenders are kept.

All decisions under Article 210 of this law affecting the status of assets and sources of assets of users of socially owned assets, once those decisions have

become final, shall be delivered to the Social Accounting Service by the Federal Foreign Exchange Inspectorate.

#### Article 214

A decision may not be made on the basis of Article 201, Paragraph 4, and Article 210, Paragraph 1, of this law if 3 years have passed from the date when the illegality or irregularity occurred or from the date when it was ascertained that the measures ordered by the competent foreign exchange agency or officer have not been carried out. The statute of limitations shall be interrupted by every action taken by the competent agency or officer to conduct proceedings. After each interruption the statute of limitations begins to run again, but in no case may the decision be made when 6 years have passed from the date when the irregularity occurred or when it was ascertained that the measures ordered had not been carried out.

Decisions made on the basis of Article 201, Paragraph 4, and Article 210, Paragraph 1, of this law may not be carried out if 3 years have passed from the date when the decision became final. The statute of limitations shall be interrupted by every action taken by the competent agency or officer to carry out the decision. After each interruption the statute of limitations shall begin to run again, but it shall in any case expire after 6 years have passed from the date when the decision became final.

#### Article 215

Control over the foreign exchange transactions of organizations established abroad by basic and other organizations of associated labor or in whose establishment they participated shall be exercised, insofar as the enforcement of Yugoslav statutes and regulations are concerned, by the Federal Foreign Exchange Inspectorate, the National Bank of Yugoslavia, and the Social Accounting Service, in the manner and under the conditions defined by the Federal Executive Council.

### XIII. Punitive Provisions

#### 1. Crimes

#### Article 216

The responsible individual in the organization of associated labor, other organization or community who in connection with an export or import of goods or services or the conclusion of credit transactions with foreign countries submits documents whose contents are untrue or in any other manner deceives the competent agency or organization or community in order to obtain unlawful property gain or who in the conduct of business does not adhere to the established rate of exchange of the dinar or does not abide by regulations enacted to implement foreign exchange policy, and thereby causes or could have caused a danger to the established rate of exchange of the dinar or to achievement of joint foreign exchange policy or to preservation of the unity of the Yugoslav market--shall be punished by imprisonment to last no less than 6 months and no more than 5 years.

An official in a body or agency of a sociopolitical community, other government body or agency or bank who abuses his official position or authority to facilitate commission of the crime referred to in Paragraph 1 of this article shall also be liable for the penalty referred to in Paragraph 1 of this article.

In a particularly aggravated case of the crime referred to in Paragraphs 1 and 2 of this article the offender shall be punished by imprisonment to last at least 1 year and no more than 10 years.

## 2. Economic Offenses

### Article 217

An organization of associated labor, authorized bank or other legal person shall be fined no less than 10,000 dinars and no more than 1 million dinars for an economic offense in the following case:

- 1) if it does not keep in a foreign exchange account exclusively in one authorized bank the foreign exchange which it has realized and which it may dispose of in conformity with this law (Article 8);
- 2) if it contracts indebtedness abroad before an authorized bank has ascertained its ability to repay the credit in foreign exchange or in dinars or if the discharge of its obligation under the credit has not been covered by the credit-guaranty potential of an authorized bank (Article 27, Paragraph 3);
- 3) if it pools foreign exchange or uses foreign exchange to create a monopolistic position on the unified Yugoslav market, or if in obtaining or using foreign exchange it disrupts stability on that market, or if it inflicts damage on other participants on the market or the social community (Article 14);
- 4) if it purchases from domestic persons or foreign persons or sells to such persons foreign exchange contrary to the prescribed buying or selling rate of exchange (Article 59);
- 5) if it purchases or sells foreign exchange or makes a spot purchase or sale of foreign exchange to another such organization at a rate other than the rate set at the interbank meeting of the unified foreign exchange market (Articles 57 and 59);
- 6) if it uses foreign exchange realized or acquired on the basis of its established contribution within the limits of the agreed needs in reproduction, including the needs referred to in Article 68 of this law, or transfers it for other than the prescribed purposes or contracts for its sale for the equivalent value in dinars or extends credit on the basis of pooled foreign exchange (Article 66);
- 7) if it does not sell the portion of foreign exchange exceeding the portion fixed in the context of Article 68, Paragraph 1, of this law to an authorized bank for inclusion in the flows of the unified foreign exchange market (Article 72, Paragraph 1);

- 8) if it does not maintain its own liquidity in international payments within the limits prescribed by the National Bank of Yugoslavia or does not sell at the interbank meeting of the unified foreign exchange market foreign exchange which it possesses over and above those limits (Article 72, Paragraph 2);
- 9) if it purchases, sells or conveys foreign exchange, if it makes payment or collection in foreign exchange or gold, or if it concludes a transaction on the basis of which the dinar value of a contractual obligation is computed on the basis of the price of gold or the rate of exchange of the dinar against a foreign currency, unless this or other federal law provides otherwise (Articles 76 and 77);
- 10) if it does not transfer foreign means of payment which it realized in the country by selling tourists gasoline coupons or by selling commercial coupons for gasoline or petroleum derivatives or on the basis of the sale of petroleum derivatives to foreign carriers to the National Bank of Yugoslavia earmarked for payment of imports of petroleum or petroleum derivatives (Article 78, Paragraph 3);
- 11) if it exports or carries newly mined gold or gold coin from the country without a permit from the National Bank of Yugoslavia (Article 100, Paragraph 1, Subparagraphs 2 and 3, and Paragraph 2);
- 12) if it melts down or makes gold bars and is not a user of gold or if it melts down gold coin (Article 102);
- 13) if it holds foreign exchange which has been earned abroad or uses it abroad without permission or contrary to the conditions prescribed by the Federal Executive Council or the National Bank of Yugoslavia (Article 79, Paragraph 2; Article 116, Paragraph 1; and Article 129, Paragraph 1);
- 14) if it does not conduct international payments in dinars or convertible currencies or in the manner envisaged in payments or other international treaties concerning payments which have been concluded or if it conducts that traffic contrary to the conditions defined by the Federal Executive Council or the National Bank of Yugoslavia (Articles 108 and 109, Paragraphs 1, 3, 4 and 5);
- 15) if it contracts to collect for goods or services exported to particular countries by importing goods or rights from those countries contrary to the conditions and procedure set forth by the Federal Executive Council (Article 109, Paragraph 2);
- 16) if it does not conduct international payments through a fully authorized bank (Article 110, Paragraph 1);
- 17) if it does not conduct payments traffic related to exports or imports of goods and services in local border traffic or neighboring overseas traffic or related to an international fair compensation contract in the prescribed manner (Article 118);

- 18) if it uses foreign exchange, pays for goods or services, or makes other payments abroad for its immediate needs contrary to the uniform criteria or other acts (Articles 74 and 122);
- 19) if it pays for certain services rendered by foreign persons contrary to the conditions defined by the Federal Executive Council (Article 125);
- 20) if it pays for patents, licenses or other industrial property abroad contrary to the conditions defined by the Federal Executive Council (Article 126);
- 21) if it makes collections from domestic persons in foreign exchange for services it renders in international freight, cargo or passenger transportation on foreign routes (Article 127, Paragraph 1);
- 22) if as the user of freight transport services it does not transfer foreign exchange at the moment of realizing the inflow of foreign exchange from goods or services exported to the organization of associated labor which performed that shipment in the value of the shipment performed, or if in importing goods it does not at the moment of payment credit foreign exchange to the carrier in the amount of shipping costs incurred between the foreign points (Article 127, Paragraphs 2 and 3);
- 23) if it uses foreign exchange earned by exporting products or components of products which are involved in long-term production cooperation or imports involved in that cooperation contrary to federal law (Article 128);
- 24) if with respect to the disposition of foreign exchange during work on a capital investment project, with respect to the computation of operating expenses, or with respect to determination of earnings from work on those capital investment projects it does not abide by the conditions defined by the Federal Executive Council (Article 129, Paragraph 4);
- 25) if it does not abide by the conditions defined by the Federal Executive Council in making payments or collections in its transactions as an intermediary in foreign commerce (Article 130);
- 26) if in rendering services in international freight, cargo or passenger transportation it incurs costs which have not been allowed by the Federal Executive Council (Article 132);
- 27) if it collects insurance or reinsurance premiums or pays losses to domestic persons in foreign exchange or contrary to the conditions defined by the Federal Executive Council (Article 133, Paragraphs 3, 5 and 6);
- 28) if it transfers funds or transfers a part of the value of invested funds contrary to the provision of Article 134 of this law;
- 29) if it incurs or pays for certain expenses in business transactions with foreign countries contrary to the conditions defined by the Federal Executive Council (Article 137, Paragraph 3);

- 30) if it contracts indebtedness abroad or extends credit abroad in evasion of the uniform criteria on borrowing set forth by the Yugoslav Community in cooperation with the republic and provincial communities and with the consent of the Federal Executive Council, or in evasion of the criteria issued by the Federal Executive Council (Article 141, Paragraphs 1 and 2; Article 147; and Article 155, Paragraphs 1, 2 and 3);
- 31) if it concludes a credit transaction with a foreign country or issues a guaranty for credit transactions with foreign countries above the level fixed for the current year by the Federal Executive Council or if it incurs short-term indebtedness used solely to bridge seasonal discrepancies in current inflow of foreign exchange and the outflow of the banks and their customers above the volume fixed by the Federal Executive Council (Article 141, Paragraph 4; and Article 155, Paragraph 4);
- 32) if it extends commodity credit, commercial credit or financial credit to users abroad contrary to the purposes established or the conditions defined by the Federal Executive Council (Articles 142, 149 and 157);
- 33) if it deposits funds in accounts abroad for an indefinite period with a period of notice required for withdrawal or for a specified period of time contrary to the conditions defined by the Federal Executive Council (Article 143);
- 34) if it takes or extends credit abroad, issues guaranties and other forms of suretyship contrary to the conditions established in an agreement or contrary to the framework of conditions or specific conditions governing concerted action on the foreign financial market (Article 144);
- 35) if it conducts credit transactions with foreign countries which it has not been authorized to conduct or if it does not furnish the necessary foreign exchange to discharge its obligations under such transactions or if it takes credit abroad or issues a guaranty or other forms of surety abroad or performs other acts preliminary to conclusion of a contract concerning credit which would create any obligations whatsoever for the Socialist Federal Republic of Yugoslavia in the domain of foreign credit relations, aside from the obligations assumed in conformity with this law (Article 145);
- 36) if it makes current international payments or establishes new foreign credit relations before discharging foreign obligations which have come due (Article 146, Paragraph 1);
- 37) if it executes an order for current payments abroad or issues a guaranty to establish new credit relations abroad for a social juridical person who has not discharged fixed or guaranteed obligations which have come due (Article 146, Paragraph 2);
- 38) if it conducts credit transactions with foreign countries contrary to the prescribed conditions (Articles 148 and 156);

- 39) if it discharges its foreign exchange obligations abroad on the basis of commercial credit, commodity credit or financial credit with foreign exchange it has raised abroad or foreign exchange it has raised from individual citizens by issuing bonds or if it uses those funds for the purposes mentioned contrary to the conditions defined by the Federal Executive Council (Article 151);
- 40) if it uses funds obtained on the basis of financial credit or on the basis of deposits from abroad for other than the purposes envisaged in Articles 152, 160 and 161 of this law;
- 41) if it issues a guaranty, superguaranty or other form of suretyship or discharges an obligation under them contrary to a self-management accord or contract which has been concluded concerning the pooling of foreign exchange or contrary to the conditions defined by the Federal Executive Council or the National Bank of Yugoslavia (Articles 153, 163, 164 and 166);
- 42) if it uses funds obtained on the basis of a special long-term or intermediate-term commercial credit abroad which has been concluded over and above the continuing credit arrangement or line of credit contrary to the prescribed conditions or purposes (Article 159);
- 43) if it concludes a new credit transaction abroad or issues a guaranty, superguaranty or other form of suretyship when it has outstanding obligations to foreign countries that have come due (Article 165);
- 44) if it uses the foreign exchange which it holds on the basis of claims against foreign banks to make payments abroad contrary to the conditions specified by the National Bank of Yugoslavia (Article 187);
- 45) if it converts foreign exchange in a foreign exchange account contrary to a restriction ordered by the National Bank of Yugoslavia (Article 188, Paragraph 2).

For any of the actions referred to in Paragraph 1 of this article the person responsible in the organization of associated labor, authorized bank or other legal person shall also be fined no less than 2,000 and no more than 30,000 dinars for an economic offense.

For any of the actions enumerated in Paragraph 1 of this article the person responsible in the body or agency of a sociopolitical community, other government body or agency or local community shall also be fined no less than 2,000 and no more than 30,000 dinars for an economic offense.

#### Article 218

An organization of associated labor, authorized bank or other legal person may be fined up to 20 times the value of foreign exchange, dinars or other property which constitute an economic offense for the economic offenses enumerated in Article 217, Paragraph 1, Subparagraphs 3, 8, 10, 13, 18, 30, 38, 40, 41 and 43, of this law, if serious consequences have ensued.

## Article 219

Property and property gain which an organization of associated labor, authorized bank or other legal person has obtained by committing an economic offense under Article 217 of this law shall be confiscated.

### 3. Misdemeanors

## Article 220

An organization of associated labor, authorized bank or other legal person shall be fined no less than 5,000 and no more than 100,000 dinars for a misdemeanor in the following cases:

- 1) if it makes a forward purchase or sale of foreign exchange in a transaction with a domestic civil legal or natural person or foreign person (Article 61, Paragraph 2);
- 2) if it does not keep records on amounts of gold produced or sold or on amounts of gold purchased or processed or if it does not keep such records in the prescribed manner (Article 105);
- 3) if it does not collect foreign exchange it has earned by exporting goods and services or accounts receivable abroad on some other basis or if it does not repatriate such foreign exchange within the prescribed period (Articles 113 and 129);
- 4) if it does not import from abroad goods which have been paid for or if it does not obtain a service from a foreign person which has been paid for within the prescribed period of time (Article 114);
- 5) if it does not submit a report and data on the transactions and balance of funds in accounts abroad and other data related to international transactions to the national bank of the republic or the national bank of the autonomous province within the prescribed period and in the manner specified by the National Bank of Yugoslavia (Article 116, Paragraph 3);
- 6) if it does not justify differences in value which have occurred in international transactions in the prescribed manner (Article 117, Paragraph 2);
- 7) if it uses dinar balances earned by foreign persons in Yugoslavia contrary to the conditions specified by the Federal Executive Council (Article 121, Paragraph 1);
- 8) if it does not register a credit transaction with a foreign country or the intention to conclude a credit transaction with a foreign country in the manner and within the period prescribed by the National Bank of Yugoslavia (Article 180);
- 9) if it does not keep the prescribed records or does not submit reports concerning such information by the dates and in the manner specified by the National Bank of Yugoslavia (Article 181 and Article 191, Paragraph 3);

- 10) if it conducts transactions involved in international payments, credit transactions with foreign countries, foreign currency transactions or exchange transactions in Yugoslavia contrary to the conditions prescribed by the Federal Executive Council (Article 186 and Article 189, Paragraph 2);
- 11) if within the prescribed period it does not correct irregularities in foreign exchange transactions cited in a decision of the National Bank of Yugoslavia or of the national bank of the republic or the national bank of the autonomous province (Article 201, Paragraph 4);
- 12) if it does not furnish to the national bank of the republic or the national bank of the autonomous province the prescribed documents for purposes of foreign exchange control or if it does not furnish them within the prescribed period of time (Article 202, Paragraph 5);
- 13) if it does not allow an authorized individual to audit foreign exchange transactions or does not make the necessary documents available or does not furnish data necessary for the exercise of foreign exchange control (Article 203, Paragraphs 1 and 3);
- 14) if it does not keep the records referred to in Article 203, Paragraph 2, of this law or if it does not keep them in the prescribed manner (Article 203, Paragraph 4);
- 15) within the prescribed period it does not correct illegalities or irregularities in foreign exchange or foreign trade transactions which have been cited in a decision of the Federal Foreign Exchange Inspectorate (Article 210, Paragraph 1);
- 16) if an authorized bank fails to carry out a decision of the Federal Foreign Exchange Inspectorate which has become final or frustrates the execution of that decision (Article 213, Paragraph 1);
- 17) if it entrusts the conduct of foreign exchange or credit transactions with foreign countries to a person who has been convicted of the crimes enumerated in Articles 216 and 224 of this law or to a person convicted of an economic offense and punished by a fine exceeding 5,000 dinars as enumerated in Article 217 of this law, before the ban on handling such transactions has expired.

For any of the actions referred to in Paragraph 1 of this article the person responsible in the organization of associated labor, authorized bank or other legal person shall be fined no less than 2,000 and no more than 20,000 dinars for a misdemeanor.

For any of the actions enumerated in Paragraph 1 of this article the person responsible in the body or agency of a sociopolitical community, other government body or agency or local community shall be fined no less than 2,000 and no more than 20,000 dinars for a misdemeanor.

## Article 221

An individual operating on his own who commits any of the actions enumerated in Articles 217 and 220 of this law shall be fined no less than 5,000 and no more than 100,000 dinars for a misdemeanor.

## Article 222

An individual or civil legal person shall be fined no less than 500 and no more than 20,000 dinars for a misdemeanor in the following cases:

- 1) if he makes a forward sale or purchase of foreign exchange (Article 61, Paragraph 2);
- 2) if he unlawfully buys, sells or conveys foreign exchange, makes payments or collections in foreign exchange or gold, or concludes a transaction in which the dinar value of the contractual obligation is computed on the basis of the price of gold or the rate of exchange of the dinar relative to a foreign currency (Article 76 and Article 77, Paragraph 1);
- 3) if he uses foreign exchange in a foreign exchange account contrary to the conditions defined by the Federal Executive Council (Article 88, Paragraph 2);
- 4) if contrary to the prescribed conditions he attempts to carry or does carry dinars out of Yugoslavia or attempts to carry or does carry dinars into Yugoslavia in international passenger transportation or if he uses the mails or other shipments to attempt to take or to take from Yugoslavia dinars or negotiable instruments denominated in dinars, effective foreign currency or negotiable instruments denominated in a foreign currency or uses the mails or other shipments to attempt to bring or to bring into Yugoslavia dinars or negotiable instruments denominated in dinars (Article 94);
- 5) if he attempts to take or does take foreign exchange from Yugoslavia in international passenger transportation contrary to regulations (Article 95, Paragraph 2);
- 6) if he attempts without permission to take or does take or sends from Yugoslavia a domestic savings passbook denominated in dinars but not made out to a specific individual (Article 96, Paragraph 2);
- 7) if he handles foreign securities, coupons of foreign securities or foreign savings account passbooks contrary to the prescribed conditions (Article 97, Paragraph 2; and Article 98, Paragraph 2);
- 8) if he handles checks drawn in Yugoslavia contrary to the provisions of Article 99 of this law;
- 9) if he attempts to take or does take newly mined gold or gold coin out of Yugoslavia without permission of the National Bank of Yugoslavia (Article 100, Paragraph 2);

- 10) if he melts gold or makes gold bars or melts down gold coin contrary to the provisions of Article 102 of this law;
- 11) if he does not keep the prescribed records on amounts of gold produced, purchased or made into bars (Article 105);
- 12) if he does not conduct payments traffic with foreign countries through a fully authorized bank (Article 110, Paragraph 1);
- 13) if he does not collect accounts receivable abroad on whatever basis or does not repatriate the proceeds within the prescribed period of time (Article 113, Paragraph 3);
- 14) if he uses dinar holdings contrary to the conditions specified by the Federal Executive Council (Article 121).

#### Article 223

In addition to the fine, for the misdemeanors enumerated in Articles 220 through 222 of this law the security measure of confiscating the property used or intended to be used to commit the misdemeanor or which came about by commission of the misdemeanor shall also be pronounced.

The property referred to in Paragraph 1 of this article may be confiscated even though it is not the property of the offender.

The security measure of confiscating property gain obtained by committing a misdemeanor shall also be pronounced for the misdemeanors referred to in Paragraph 1 of this article.

As an exception to the provision of Paragraph 1 of this article, the property used or intended to be used in committing the misdemeanor or which came about through commission of the misdemeanor may be partially confiscated if the motives or other circumstances under which the misdemeanor was committed indicate that there is no justification for confiscation of the entire property.

The security measure of confiscating a vehicle or container shall be pronounced for the misdemeanors enumerated in Article 221 and Article 222, Subparagraphs 4, 5, 6, 7 and 9, of this law if secret or hidden places in it were used to conceal the property involved in the misdemeanor, regardless of whether it is the property of the offender.

#### 4. The Legal Consequences of Conviction

#### Article 224

In organizations of associated labor, other organizations or communities handling foreign exchange or credit transactions with foreign countries those transactions may not be handled by a person who has committed a crime with intent against the foundations of the social system of socialist self-management and the security of the SFRY, against the armed forces of the SFRY or the good

name of the SFRY, against humanity or international law, against the good name of a foreign state or international organization, against rights under self-management, or against the unity of the Yugoslav market, or for the crime cited in Article 216 of this law and received an unsuspended prison sentence for that crime under a final court verdict.

The prohibition referred to in Paragraph 1 of this article shall apply to a person who has committed a crime with intent against the economy, against public property or against other social values or against official duties if he has received an unsuspended prison sentence of at least 6 months for that crime under a final court verdict.

The prohibition referred to in Paragraph 1 of this article shall apply to a person who has committed another crime with intent aside from the crimes cited in Paragraphs 1 and 2 of this article if he has been given an unsuspended prison sentence of at least 3 years for that crime under a final court verdict.

The prohibition against the persons referred to in Paragraphs 1 and 2 of this article shall last 10 years, and against the person referred to in Paragraph 3 of this article it shall last 5 years from the date when the sentence was served, when pardon was granted or when the statute of limitations expired on execution of sentence.

#### Article 225

An organization of associated labor, authorized bank or other legal person may not employ in a job which involves foreign exchange transactions or credit transactions with foreign countries or may not keep in such a position a person who has been convicted of an economic offense covered by this law if he was fined more than 5,000 dinars for that offense.

The prohibition referred to in Paragraph 1 of this article shall last 3 years from the date when the verdict became final.

#### Article 226

The Federal Foreign Exchange Inspectorate shall conduct misdemeanor proceedings for the misdemeanors envisaged by this law and shall also render judgment on the misdemeanor in the first instance.

An appeal may be filed with the Federal Secretariat for Finance against the decision of the Federal Foreign Exchange Inspectorate.

#### Article 227

If misdemeanor proceedings have been instituted on the basis of charges which a customs agency or officer has drawn up on the basis of his or its own direct observation, and the value of property involved in the misdemeanor does not exceed 3,000 dinars, a judgment may be rendered concerning the misdemeanor without summoning and interrogating the accused.

Within 8 days from the date when the judgment is delivered the accused may file an objection with the Federal Foreign Exchange Inspectorate against the judgment enacted on the basis of Paragraph 1 of this article.

If the accused files an objection within the prescribed period, the Federal Foreign Exchange Inspectorate shall annul the judgment and resume regular proceedings. The judgment concerning the misdemeanor rendered in regular proceedings may not be less favorable for the accused than the judgment annulled in response to his objection.

#### Article 228

Proceedings for misdemeanors covered by this law may not be instituted when 3 years have passed from the date when the misdemeanor was committed. The statute of limitations shall be interrupted by every action taken by the competent body to prosecute the offender. Following each interruption the statute of limitations shall begin to run again from the beginning, but in any case, regardless of interruptions, action may no longer be taken when 6 years have passed from the date when the misdemeanor was committed.

A punishment and security measure pronounced for a misdemeanor may not be executed if 3 years have passed from the date when the verdict on the misdemeanor became final. The statute of limitations on execution of the penalty or security measure shall not run during that time when execution could not be undertaken by law. The statute of limitations shall be interrupted by every action taken by the competent authority to execute the punishment or security measure. Following every interruption the statute of limitations shall again begin to run from the beginning, but regardless of interruption the right of action shall lapse in any case when 6 years have passed from the date when the verdict concerning the misdemeanor became final.

#### Article 229

The Federal Foreign Exchange Inspectorate rendering a judgment on a misdemeanor in the first instance may rule that the fine pronounced for the misdemeanor under this law may be paid in installments, provided that the period for payment of the total amount does not exceed 2 years.

#### Article 230

Fines, property gain and means of payment and other property used or intended for use in committing an economic offense or misdemeanor or coming about through the commission of an economic offense or misdemeanor shall be paid into the federal budget.

### XIV. Transitional and Final Provisions

#### Article 231

Basic organizations of associated labor and other domestic legal persons may discharge with dinars foreign exchange obligations to authorized banks not

settled before the date when this law takes effect and arising in connection with contracts on foreign exchange credits within the country concluded with authorized banks before 30 September 1972, settlement to be made at the selling rate of exchange of the relevant currency in effect on the day when the debtor settles the obligation.

Foreign exchange obligations of organizations of associated labor and other domestic legal persons to authorized banks which have come about before the day when this law takes effect by virtue of an authorized bank's having discharged an obligation abroad in the place of the principal debtor, and on the basis of a guaranty which the authorized bank gave the foreign creditor concerning a credit contract which the principal debtor concluded with the foreign creditor before 30 September 1972 shall also be settled in the manner described in Paragraph 1 of this article.

All payments abroad related to the credits referred to by Paragraph 2 of this article shall be made beginning on 1 January 1978 with the foreign exchange and dinars referred to in Article 122 of this law.

#### Article 232

So long as disturbances persist in the operation of the unified foreign exchange market the National Bank of Yugoslavia, depending on the status of foreign exchange reserves, shall intervene with resources from foreign exchange reserves at the interbank meeting of the unified foreign exchange market for the purpose of bridging the difference in time between the supply and demand on the unified foreign exchange market, under the conditions and within the periods of time fixed by the Federal Executive Council.

The National Bank of Yugoslavia shall report on a monthly basis to the SFRY Assembly and Federal Executive Council concerning interventions made on the unified foreign exchange market.

#### Article 233

Basic and other organizations of associated labor, authorized banks and other social juridical persons shall furnish funds for repayment of fixed and guaranteed obligations created before 31 December 1982 with the foreign exchange which they realize and acquire in conformity with Articles 65, 66, 68 and 72 of this law.

Basic and other organizations of associated labor and authorized banks shall be responsible for prompt discharge of obligations come due under foreign credits referred to in Paragraph 1 of this article.

Basic and other organizations of associated labor and authorized banks of which they are members are required in conformity with their respective obligations and responsibilities, before the end of November of the current year for the coming year, and exceptionally before 31 January for 1983, to compile programs for ensuring repayment of fixed and guaranteed obligations of their members created before 31 December 1982. The programs shall state the manner

and schedule for furnishing foreign exchange which the members of the bank objectively are unable to furnish either independently or by establishing mutual self-management ties, from the portion of foreign exchange which they dispose of in the context of Articles 65, 66, 68 and 72 of this law.

Authorized banks shall conclude agreements with one another regulating correction of discrepancies in the outflow and inflow of foreign exchange, the conditions and procedure for mutual loans in order to ensure discharge of obligations of their members to foreign countries which have come due.

The agreement among the authorized banks, which is to be concluded before 31 January 1983, shall regulate the sources and timing of the furnishing of funds to discharge fixed and guaranteed obligations which basic and other organizations of associated labor and individual authorized banks have been unable to furnish in the context of Paragraphs 1 through 4 of this article, as well as the criteria governing the use of that foreign exchange.

The criteria referred to in Paragraph 5 of this article shall state that foreign exchange may be furnished to a basic or other organization of associated labor to pay fixed and guaranteed obligations only provided that it has made use of every available opportunity to pay the fixed and guaranteed obligations.

The agreement of the republics and autonomous provinces which is to be concluded before 31 January for each current year, if the agreement referred to in Paragraph 5 of this article does not guarantee full discharge of fixed and guaranteed obligations, shall set forth the conditions and criteria on the basis of which the republics and autonomous provinces shall regulate the sources of foreign exchange to repay that portion of fixed and guaranteed obligations as referred to in Paragraph 1 of this article which could not be guaranteed under the criteria referred to in Paragraph 5 of this article.

If the agreement referred to in Paragraph 7 of this article is not concluded before 31 January for each current year, the Federal Executive Council shall adopt an enactment whereby it regulates sources of foreign exchange to discharge that portion of fixed and guaranteed obligations for which it was not possible to furnish foreign exchange in the manner set forth in Paragraphs 1 through 7 of this article and also the criteria governing its use, on which it shall report to the SFRY Assembly within a period of 15 days from the date when that enactment was adopted.

#### Article 234

The self-management accord among the authorized banks which is to be concluded before 31 January 1983 shall regulate the sources and manner of repayment of foreign exchange to authorized banks which out of their total foreign exchange potential have paid fixed and guaranteed obligations for organizations of associated labor and other social juridical persons in the period from termination of the operation of the foreign exchange market up to 31 December 1982 and which at the moment when the fixed and guaranteed obligations were paid did not have foreign exchange accounts in those banks.

#### Article 235

For the first quarter of 1983, before issuance of the uniform criteria referred to in Article 68 of this law, the Federal Executive Council shall prescribe the sources and schedule of the setting aside of foreign exchange for the importation of petroleum, petroleum products, coking coal and goods especially important to supply of the public, it being further provided that the allocations for those purposes may not exceed the amount paid to import petroleum in the last quarter of 1982.

The Federal Executive Council shall adopt the regulation referred to in Paragraph 1 of this article no later than 5 days following the date when this law takes effect.

#### Article 236

A portion of the inflow of foreign exchange in 1983 amounting to 3 percent shall be set aside to replenish Yugoslavia's foreign exchange reserves administered by the National Bank of Yugoslavia.

The actual inflow of foreign exchange in 1983 shall constitute the base for setting aside the foreign exchange referred to in Paragraph 1 of this article.

Foreign exchange shall also be set aside out of net inflow of foreign exchange realized on the following basis:

- i. compensation deals,
- ii. cooperation,
- iii. local border traffic.

The National Bank of Yugoslavia shall issue an instruction on the manner in which the portion of foreign exchange shall be set aside for the needs stated in Paragraph 1 of this article.

#### Article 237

The National Bank of Yugoslavia shall monitor the way in which the authorized banks discharge fixed and guaranteed obligations under foreign credits and shall report monthly on this to the Federal Executive Council and quarterly to the SFRY Assembly.

#### Article 238

The Yugoslav Community of Interest shall in its bylaws set forth the manner in which cooperation shall be carried on with organizations of associated labor which have ties pertaining to their operation, production and income in the production for export and in forms of linkage and organization which they themselves establish within a period of 6 months from the date when this law takes effect.

### Article 239

Organizations of associated labor and other social juridical persons are required to transfer foreign exchange from foreign exchange accounts in authorized banks to a foreign exchange bank in one authorized bank within a period of 6 months from the date when this law takes effect.

The Federal Executive Council shall regulate relations of the authorized banks in connection with performance of Paragraph 1 of this article on the recommendation of the Association of Yugoslav Banks.

### Article 240

The Yugoslav Community of Interest shall set forth uniform criteria on borrowing for 1983 within a period of 15 days from the date when this law takes effect.

### Article 241

The uniform criteria referred to in Article 68 of this law shall be set forth for 1983 before 25 January 1983.

If the uniform criteria referred to in Paragraph 1 of this article are not set forth within the period stated in that paragraph, the Federal Executive Council shall adopt uniform criteria before 31 January 1983.

### Article 242

Basic and other organizations of associated labor and other social juridical persons are required to bring self-management accords which are in effect concerning the pooling of foreign exchange or concerning the pooling of labor and capital with a view to realizing foreign exchange which they have concluded on the basis of Articles 65 and 66 of the Law on Foreign Exchange Transactions and Credit Relations With Foreign Countries in conformity with the provisions of this law no later than 30 April 1983.

7045  
CSO: 2800/305

YUGOSLAVIA

NEED NOTED FOR MORE ACCURATE, OPEN BUSINESS REPORTING

Belgrade EKONOMSKA POLITIKA in Serbo-Croatian 9 May 83 pp 30-31

[Excerpt] In the EEC (European Economic Community), which comprises a large number of countries, there is the obligation to publish clear standardized reports on [enterprise] operation which serve to represent the firm. In doing business with our organizations of associated work, firms from the EEC will expect the same from them. But what will they get?

Final reports of our organizations of associated work are not published. In fact, Article 34 of the Law on the Social Accounting Service says that facts about the property status and results of each organization can be obtained at the request of domestic organizations, but not foreign organizations. But Article 39 of the same law generally proclaims that "facts about business results" are a business secret. Thus, the giving of such data to a foreign firm would not be permitted and would be subject to penalty.

Of course it is necessary to change the law. In practice, exhaustive data on property, status, and results of business operation are given by our organizations in communicating with firms with which one wants to establish serious business relations. This is not only necessary but it is also of great use to domestic organizations. By creating confidence with a business partner, more favorable conditions of cooperation can be attained, because it reduces the sense of risk. It is therefore time that we look at the practice of other countries and support, through regulations, the publication of clear annual reports of our organizations.

A number of our organizations already publish their annual reports in a certain form and manner. ...But they vary enormously. There are well-put-together balance sheets, but many more that are not.... In calculating successful operation, income is sometimes equated with profit. The form for drawing up balance sheets here are too long and are put together so as to inform the state and meet its statistical desires, instead of showing the real status and success of an organization's operation. Such things, in the eyes of foreign firms, serve to confirm the lack of independence of our organizations of associated labor and the omnipotence of the state. Also, because of this, it is difficult for our organizations to be accepted as partners in more long-term and serious business negotiations. Bank guarantees are often required which slow down business deals and make them more difficult and expensive.

In developing the system of social ownership based on self-management, we have had to seek original solutions which will further nourish this process. But we fall into improvisation also in cases where the experience of other countries has left us with good and effective solutions. Especially in relations with organizations from EEC countries, we must pay more attention to comparing and coordinating our own solutions.

CSO: 2800/316

YUGOSLAVIA

LAW ON USE OF FOREIGN COMMODITY CREDITS, 1983, 1984

Belgrade SLUZBENI LIST SFRJ in Serbo-Croatian No 11, 11 Mar 83 pp 223-224

[Law passed by the SFRY Assembly in a session of the Chamber of Republics and Provinces on 9 March 1983]

[Text] On the basis of Article 315, Subparagraph 3, of the Constitution of the Socialist Federal Republic of Yugoslavia, the State Presidency of the Socialist Federal Republic of Yugoslavia issues the following

UKASE

Promulgating the Law on Taking Certain Foreign Commodity Credits in 1983 and 1984

The Law on Taking Certain Foreign Commodity Credits in 1983 and 1984, which has been passed by the SFRY Assembly in a session of the Chamber of Republics and Provinces on 9 March 1983, is hereby promulgated.

Enactment No 267  
Belgrade, 9 March 1983

Mika Spiljak (signed),  
Vice Chairman of the  
SFRY State Presidency

Raif Dizdarevic (signed),  
President of the SFRY  
Assembly

LAW  
on Taking Certain Foreign Commodity Credits in 1983 and 1984

Article 1

Banks authorized to conduct international transactions (hereinafter "authorized banks") may in 1983 and 1984 take foreign commodity credits in their own name and on their account which are approved by government agencies of foreign states or covered by guaranties of such agencies in order to pay for imports of raw materials and production supplies for production of goods for export to

the convertible area (hereinafter "commodity credits") up to the maximum amount set by federal law, under the conditions and in the manner prescribed by this law.

The National Bank of Yugoslavia may issue guaranties and superguaranties on foreign commodity credits taken by authorized banks under the provision of Paragraph 1 of this article, under the following conditions:

- 1) that the credits are taken to cover the purchase of basic raw materials and production supplies urgently necessary for production of goods for export and to create conditions for improvement of liquidity in international payments;
- 2) that the authorized bank taking the credit ensures that the users of the credit will promptly repay the credit taken.

#### Article 2

Commodity credits taken under the provisions of this law may be used only to pay for imports of raw materials and production supplies to manufacture goods for export to the convertible area.

#### Article 3

Authorized banks may issue commodity credits to organizations of associated labor which are participating in the production of goods for export through relations of direct linkage in the process of reproduction as well as to organizations of associated labor which are realizing foreign exchange independently and which meet the prescribed conditions for use of those credits.

#### Article 4

Commodity credits from a particular country may be taken from the granter of those credits only through an authorized bank which the authorized bank shall designate by agreement within the framework of the Association of Yugoslav Banks.

An authorized bank which has taken a commodity credit by agreement with other authorized banks within the Association of Yugoslav Banks shall promptly handle business related to that credit with organizations of associated labor.

#### Article 5

An authorized bank shall issue a commodity credit to organizations of associated labor under the same conditions with respect to the level of the interest rate and other costs of the credit under which it took that credit.

An authorized bank shall issue commodity credits to organizations of associated labor on the territory of the Socialist Federal Republic of Yugoslavia who offer the most favorable terms and conditions with respect to the period of time for repayment of the credit and achievement of an inflow in convertible foreign exchange that is larger than the amount of commodity credit granted.

The authorized bank shall conclude a contract with organizations of associated labor concerning the granting, use and repayment of a commodity credit for each export transaction.

#### Article 6

The provision of Article 81, Paragraph 1, of the Law on Foreign Exchange Transactions in Credit Relations With Foreign Countries shall apply to the entire inflow of foreign exchange realized by exporting goods manufactured through use of the commodity credit covered by this law.

#### Article 7

Measures concerning temporary restriction of imports adopted on the basis of the authorization contained in Article 38 of the Law on Foreign Commerce shall not apply to imports of raw materials and production supplies paid for with the resources of commodity credits.

#### Article 8

Out of the inflow of foreign exchange realized by exporting goods manufactured through the use of a commodity credit the organization of associated labor shall first of all discharge its obligations under the credit taken with respect to repayment of the credit, payment of interest and other costs of the credit.

Regulations on setting aside a portion of foreign exchange under the provisions of Articles 80 and 81 of the Law on Amendments and Supplements of the Law on Foreign Exchange Transactions and Credit Relations With Foreign Countries shall apply to the inflow of foreign exchange referred to in Paragraph 1 of this article. Decisions setting the total amount of foreign exchange to meet the needs of the Federation in 1983 or on the provisions of the uniform criteria and of Article 69a of the Law on Foreign Exchange Transactions and Credit Relations With Foreign Countries shall apply to the inflow of foreign exchange referred to in Paragraph 1 of this article.

If the inflow of foreign exchange, after obligations referred to in Paragraph 1 of this article have been met, is not sufficient to discharge the obligations referred to under Paragraph 2 of this article, the portion of foreign exchange which is lacking shall be made up from its own resources realized on other bases by the organization of associated labor which took the credit.

#### Article 9

The Federal Executive Council shall issue regulations regulating in more detail the conditions and manner of the taking and using of commodity credits, periods of time for repayment of credit, the manner in which application shall be made and documentation for granting credits, as well as on the records which are to be kept by the competent customs houses on imports of raw materials and production supplies which have been made and which have been paid for with the resources of commodity credit and on inspection at the time when the

goods are exported to see that the goods being exported were produced by using the imported raw materials and production supplies.

#### Article 10

The authorized bank is required to check that commodity credits are used for the stated purpose, and the competent authorities are to check that the raw materials and production supplies paid for with those credits are used for the stated purpose, and they shall take the prescribed measures on the basis of their findings.

If in its check or on the basis of findings of the competent authorities the authorized bank finds that the resources of the credit have not been used for the stated purpose, it shall terminate further use of the credit by the organization of associated labor and shall immediately collect the unused portion of the credit.

#### Article 11

If an organization of associated labor or authorized bank fails to ensure regular repayment of a commodity credit, the authorized bank or National Bank of Yugoslavia shall issue an order for the corresponding amount of unpaid credit to be transferred from the foreign exchange account of the organization of associated labor or foreign exchange account of the authorized bank to the foreign exchange account of the authorized bank or National Bank of Yugoslavia to repay that credit.

#### Article 12

If an authorized bank fails for longer than 30 days to discharge its obligations under a commodity credit which it has taken, the National Bank of Yugoslavia shall deprive that bank of its authorization to conduct transactions with foreign countries, except for the payment of fixed and guaranteed obligations.

#### Article 13

The provisions of Articles 7 and 8 of this law shall also apply to other commodity credits whose repayment period is not longer than 1 year and which were taken after this law takes effect in 1983 and in 1984 in order to import raw materials and production supplies intended for the manufacture of goods for export to the convertible area.

#### Article 14

The credits which authorized banks grant to organizations of associated labor under this law shall not be charged to the ceilings on bank lending established in 1983 and 1984.

## Article 15

An authorized bank shall be fined no less than 10,000 and no more than 1 million dinars for an economic violation in the following cases:

- 1) if it does not check the use of a commodity credit for the purpose stated (Article 10, Paragraph 1);
- 2) if it does not terminate the use of the commodity credit by the organization of associated labor or does not immediately take steps to collect the unused portion of credit (Article 10, Paragraph 2).

The person responsible in the authorized bank shall also be fined no less than 20,000 and no more than 50,000 dinars for an economic violation for an act as described in Paragraph 1 of this article.

## Article 16

An organization of associated labor shall be subject to a fine of no less than 10,000 and no more than 1 million dinars for an economic violation if it does not use commodity credits which it has obtained from an authorized bank for the purposes envisaged by this law (Article 2).

The person responsible in the organization of associated labor shall also be subject to a fine of no less than 20,000 and no more than 50,000 dinars for an economic violation for an act as described in Paragraph 1 of this article.

## Article 17

Within a period of 14 days from the date when this law takes effect the authorized banks are required to designate the authorized bank which is to take commodity credits in accordance with Article 4 of this law.

If the authorized banks do not designate the authorized bank within the period stated in Paragraph 1 of this article, that bank shall be designated in a further period of 7 days by the Federal Executive Council on the recommendation of the National Bank of Yugoslavia.

## Article 18

This law shall take effect on the eighth day after publication in SLUZBENI LIST SFRJ.

7045  
CSO: 2800/307

CHANGES IN PRIVATE FARM INCOME, 1960-1980

Belgrade EKONOMIKA POLJOPRIVREDE in Serbo-Croatian No 2, Feb 83 (manuscript received 27 Aug 82) pp 99-114

[Article by Jeremija Simic and Viden Randjelovic, School of Agriculture of Belgrade University, Zemun; and Vucic Jovanovic, Federation of Yugoslav Agriculture Engineers and Technicians, Belgrade: "Certain Socioeconomic Specificities and Changes in Income and Its Distribution on Yugoslavia's Private Farms"]

[Excerpt] Changes in the Volume and Structure of Marketed Agricultural Production

The principal economic feature of reproduction in agriculture on private farms is expressed through development of agricultural production for the market. This phenomenon figures as an especially important economic tendency in the process of economic changes and changes in production and the dissolution of transitional semisubsistence or autarkic forms of economic activity in agriculture. This process has been especially evident in the period since 1960. The development of production for the market in agriculture as a whole, including private farms, is a factor which drives development of the productive forces and expansion of the volume of agricultural production.

However, there are two essential tendencies we need to point up in the development of agriculture and in the accomplishment of reproduction in the private sector. On the one hand, in spite of the constant technical-and-technological development and expansion of agricultural production for the market, the growth of the total physical volume of agricultural production in the private sector is lagging behind the real conditions and society's needs for development.

On the other hand the volume of total agricultural production and agricultural production for the market has been increasing on a certain number of private farms as an expression of strong technical-and-technological development.

In spite of the tendency of declining growth of the total volume of agricultural production, there has been a growing trend on private farms toward a relative and absolute increase of the volume of agricultural production for the market.

The value of agricultural production for the market on private farms increased 147 percent between 1970 and 1980, at which point it was more than double what it was in 1960 (in permanent prices).

Another essential characteristic in development of agricultural production for the market in the private sector is manifested in the constant growth of the relative share of agricultural production for the market in total production. This is characteristic both of Yugoslavia as a whole and also in the individual republics and provinces. The share of agricultural commodity production (that is, production for the market) in the total calculated value of agricultural production increased from about 20 percent in 1960 to about 59 percent in 1980. This relative increase in the marketed share of agricultural production on private farms has been directly brought about by two factors: first, the physical increase in the volume of agricultural production destined for the market, and second, the decline of production for subsistence, i.e., that production which is used in consumption in the farm household. The drop in on-farm consumption of agricultural products has been influenced both by the shrinking of the "pure" farm population [that is, farm households without outside income] as well as by the natural phenomenon of spreading specialization in agricultural production under the influence of the social division of labor and money-exchange relations.

As these processes make inroads into agriculture, private farmers are on the one hand turning more and more toward producing certain types of farm products for the market, while on the other they are buying an ever larger volume of raw and processed foods to meet their own needs. For example, private farmers are producing wheat, livestock, milk, vegetables, fruit and other types of products for the market, while at the same time they figure as retail customers for these products. This refers mainly to processed foods which farmers purchase (processed meat products, cheese, butter, sugar, bread and other cereal products, processed fruits and vegetables, etc.). This is a normal phenomenon as production for the market increases and as private farmers become part of the social division of labor.

Table 1. Agricultural Production on Private Farms in 1979 and Its Relation to the Market (total value of production in the respective region = 100)

Republics and Provinces	Production for Market					
	Unmarketed Production		Returning to Farm		Net Production for Off-Farm Consumption	
	Dinars	%	Dinars	%	Dinars	%
Yugoslavia	26,674	43.0	20,146	32.5	15,212	24.5
Bosnia-Hercegovina	16,621	44.5	23,246	63.3	-2,545	-6.8
Montenegro	30,652	58.6	24,641	47.1	-3,025	-5.7
Croatia	19,202	40.1	18,304	38.3	10,338	21.6
Macedonia	15,741	26.3	23,403	39.2	20,602	34.5
Slovenia	35,368	42.1	26,686	31.7	22,005	26.2
Serbia	34,504	44.5	17,608	22.7	25,490	32.8
Serbia proper	41,636	56.1	16,727	22.5	15,799	21.3
Kosovo	28,467	63.5	18,704	41.7	-2,369	-5.2
Vojvodina	20,377	20.1	19,190	19.0	61,617	60.9

There are two forms in the development of production for the market on private farms: that portion of production for the market which returns to rural areas and the farm household through the purchase of processed agricultural products, and net production for off-farm consumption,\* which represents the amount by which agricultural production exceeds needs and consumption on those farms. The two forms of production for the market, together with that portion of production grown for direct on-farm consumption, constitute the gross value of agricultural production on private farms.

As a function of the size of total production of farm products for the market, the level of specialization achieved in agriculture and the level of money income derived from work off the farm, the share of agricultural production for the market which returns to the rural area and the farm household has been increasing in both volume and its share in the total value of agricultural production and in total output for the market.

Taking Yugoslavia as a whole, the share of the marketed portion of farm products in the total value of agricultural production on private farms increased from 49.8 percent in 1965 to 59.4 percent in 1980. Taken by republics and provinces, there is a variation in the relative share of production for the market returning to the rural area and the farm household. In 1979 the share of this portion of output for the market in the total value of agricultural production on the farms surveyed was as follows: 62.3 percent in Bosnia-Herzegovina, 47.1 percent in Montenegro, 38.2 percent in Croatia, 39.2 percent in Macedonia, 31.7 percent in Slovenia, 22.7 percent in Serbia as a whole, 22.5 percent in Serbia proper, 41.7 percent in Kosovo and 19.0 percent in Vojvodina. It is evident that the share of farm production for the market returning to the rural area and farm household is higher in those regions where the volume of total agricultural production for the market is smaller. This phenomenon is also significantly influenced by employment and the earning of income off the farm. These two circumstances determine the size and portion of net production for the market.

In Bosnia-Herzegovina, Montenegro and Kosovo the total value of farm products purchased is greater than the value of farm products sold. This means that in those regions private farms show a deficit in the balance of farm products. The share of production for the market returning once again to the farm household in the total volume of output for the market was about 112 percent in Bosnia-Herzegovina, about 114 percent in Montenegro and about 115 percent in Kosovo. Farm households in those regions are more involved in the farm products market through the purchases they make than through the products of their own which they sell.

Along with the increase in the proportion of agricultural production grown for the market, there has also been a change on these farms in the composition of their production. In 1980 the breakdown of marketed farm products by the basic branches of agriculture was as follows: field crops 30.4 percent, animal

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\* Net production for off-farm consumption is defined as the difference between total money income from the sale of farm products and money expenditures to purchase farm products.

husbandry 55.3 percent, fruitgrowing and grapegrowing 9.5 percent and other activities 4.8 percent.

The increase in production for the market and indirectly the increase in total farm production on private farms have been influenced both by the growing food needs of society and also by the application of ever more up-to-date technical-and-technological procedures (modern tilling of the land, use of modern machines and chemicals for plant pest and disease control, use of high-yield and hybrid plant varieties and introduction of more productive livestock breeds, etc.).

On "pure" farm households, especially the large holdings, production for the market and especially net production for the market, is predominant. On mixed farms [that is, households with both on-farm and off-farm income] and farms with less than 2 hectares of arable land the share of production for the market on the private holding is relatively smaller.

According to 1977 figures, about 35 percent of the farms (the group under 2.0 hectares) account for about 15 percent of total production for the market, in terms of net production for the market they show a deficit, i.e., in that year they purchased about 33 percent more farm products than they sold.

Farms on the other hand with a holding exceeding 5 hectares, whose share in 1977 was about 28 percent of all farms, accounted for about 55 percent of total production for the market and about 80 percent of total net production for the market of all private farms.

#### Changes in the Level and Composition of Income on Private Farms

When we look at all private farms, we see that there has been a considerable increase in their average income. They derive income from several sources: first of all from the growth of agricultural production, especially from agricultural production for the market on the farm itself, and then from the work of persons gainfully employed off the farm (either permanent or occasional employment), from the sale of machine services in the farming operations of other private farmers, from pensions, disability benefits and other social welfare receipts). Differences in sources of income and the rate of changes in the level of income are influenced above all by the differing representation of internal production-and-economic factors on the farm (size of the holding, number of able-bodied members of the household, and the socioeconomic and age-specific composition of members of the household, etc.).

According to the data of a survey of rural households done by the Federal Bureau of Statistics, the level of income on private farms has been increasing constantly. This has been influenced by an increase in the volume of production of farm products for the market, by the employment of able-bodied persons off the farm, and by the increase in the labor productivity of those persons.

Viewed in nominal terms, the income on private farms has been changing in line with changes in monetary and economic policy. Thus, for example, the level of income in current prices in 1980 was about 13-fold greater on an average farm

basis than in 1980 and about 14-fold greater in terms of the average per member of the household. However, we learn about the real growth of income from using permanent prices in the analysis.

Table 2. Changes in the Level of Income on Private Farms in Yugoslavia

Year	Per Farm				Per Member of Household			
	In Current Prices		In 1979 Prices		In Current Prices		In 1979 Prices	
	Dinars	Index	Dinars	Index	Dinars	Index	Dinars	Index
1960	4,243	36	50,916	96	771	31	9,257	76
1965	9,022	76	56,839	107	1,879	75	11,841	98
1970	11,836	100	53,262	100	2,518	100	12,105	100
1972	31,665	268	89,611	168	7,037	279	19,914	165
1974	45,619	385	91,694	172	10,070	400	20,242	167
1976	66,201	559	103,274	194	15,219	604	23,741	196
1977	79,813	674	111,738	210	18,098	719	25,805	213
1978	93,297	788	116,621	219	21,060	836	26,325	217
1979	121,150	1,023	121,150	227	28,044	1,114	28,044	232
1980	153,366	1,296	207,044	389	35,095	1,394	47,378	391

Source: Statistical bulletins on private farms published by the Federal Bureau of Statistics for the respective years.

Table 3. Level of Income of Rural Households by Republics and Provinces in 1980

Republic--Province	Per Farm			Per Member of Household		
	In Thousands of Dinars	%	Index 1969=100	In Thousands of Dinars	%	Index 1969=100
Yugoslavia	153	100	161	35.1	100	165
Bosnia-Hercegovina	114	75	134	24.1	69	146
Montenegro	133	87	278	30.7	87	256
Croatia	134	88	125	37.7	107	111
Macedonia	142	93	175	26.7	76	193
Slovenia	243	159	186	58.8	168	186
Serbia	169	110	174	37.8	108	165
Serbia proper	148	97	167	35.2	100	168
Kosovo	128	84	122	15.9	45	109
Vojvodina	238	156	212	69.6	198	175

According to the figures in Table 2 [original reads Table 1], the average level of income for all private farms was 389 percent greater per farm in 1980 than it was in 1970 and 391 percent greater over the same period per member of the household. The fact that the income per member of the household has been growing faster than the average for the farm indicates that one of the reasons why labor productivity on private farms has been increasing significantly is deagrarianization and the abandonment of agriculture.

However, we should bear in mind that the level of income of private farms is actually greater than indicated by the figures in this survey. The reason is that the farm's net income did not include productive consumption of products grown on the farm (seed, young fruit trees and grape vines for planting, live-stock feed, etc.), nor the value of work done by members of the household to build farm structures, to establish vineyards and orchards, and to carry out other projects amounting to capital investment.

If this part of work done is taken into account in computing the rural household's income, the size of their income per member of the household would have been about 10-15 percent greater than indicated in the statistics (authors' estimate).

The level of income achieved by rural households varies from one republic or province to another, which is above all a reflection of the difference in the level of their total economic development, the level of social productivity of labor, the level of deagrarianization of the population which has been achieved, and other factors. In addition, the difference in level of income on private farms from one republic or province to another derives from the technical-and-technological development of agriculture on the private holding.

According to figures for 1980, the index number of income per member of the household relative to the average level of income in Yugoslavia as a whole was as follows by republics and provinces: 75 percent in Bosnia-Hercegovina, 87 percent in Montenegro, 88 percent in Croatia, 93 percent in Macedonia, 159 percent in Slovenia, 100 percent in Serbia as a whole, 97 percent in Serbia proper, 84 percent in Kosovo and 198 percent in Vojvodina.

The figures show that the income per member of the household on private farms was about 4.4-fold greater in Vojvodina, say, than it was in SAP [Socialist Autonomous Province] Kosovo. The lag of the income of rural households in SAP Kosovo follows from the continuing rather high level of the farm population, the relatively slow penetration of modern technology, the relative underdevelopment of the socialized sector of agriculture, and the other material and economic characteristics of that region.

An essential characteristic of the change in income on private farms is also manifested in the rapid change in the composition of that income with respect to its source.

Over the last two decades the share of income from off-farm activity has been increasing faster than the share of income from agricultural production on the farm itself. As a reflection of those tendencies there has been a considerable decrease in the share of income from the farm and a corresponding increase in the share of income derived from work off the farm in the breakdown of total income.

The proportion of on-farm income in total income of the farm dropped from 68.3 percent in 1960 to 45.3 percent in 1976 on the basis of the average for all private farms in Yugoslavia. This tendency with respect to the relative importance of sources of income indicates that conditions for earning income off

the farm were relatively more favorable in that period. We are referring here above all to the increased employment of the rural population and to the rise of labor productivity in activities off the farm. However, since 1976 income derived from the farm has been increasing faster than income derived from work off the farm.

Table 4. Change in the Composition of the Income of Private Farms by Sources

Year	On-Farm Income			Off-Farm Income		
			Share in Total In- come, %			Share in Total In- come, %
	Dinars	Index		Dinars	Index	
1960	2,907	50	68.5	1,336	41	31.5
1965	5,799	100	64.3	3,223	100	35.7
1970	8,960	154	54.5	7,476	232	45.5
1972	14,807	255	46.8	16,858	523	53.2
1974	21,310	367	46.7	24,307	754	53.3
1976	29,952	516	45.3	36,249	1,124	54.7
1977	37,091	640	46.5	42,722	1,325	53.5
1978	46,363	799	49.7	46,934	1,456	50.3
1979	61,114	1,054	50.4	60,036	1,862	49.6
1980	81,210	1,400	52.9	71,622	2,222	47.1

As proof of this tendency, there has been an increase in the share of on-farm income in the total income of the household to about 52.9 percent in 1980. These figures indicate that over the period 1976-1980 relatively more favorable conditions have been created for earning income by working on the farm than in the period up to 1976.

Changes in the composition of the income of rural households by sources are characteristic of all republics and provinces.

Table 5. Composition of Money Income by Sources in 1980 (total income of the farm = 100)

Republic--Province	Money Income From Farm		Money Income From Work Off Farm		Other Money Income	
	Dinars	%	Dinars	%	Dinars	%
Yugoslavia	36,210	33.9	63,340	59.4	7,120	6.7
Bosnia-Hercegovina	17,704	20.8	63,059	73.9	4,415	5.3
Montenegro	21,444	24.3	58,047	65.8	8,688	9.9
Croatia	24,689	26.8	61,573	66.9	5,777	6.3
Macedonia	54,834	48.9	54,516	48.6	2,715	2.4
Slovenia	47,843	26.7	124,531	69.4	7,043	3.9
Serbia	46,664	41.5	56,388	50.1	9,357	8.3
Serbia proper	31,451	32.1	60,533	61.8	5,994	6.1
Kosovo	17,025	19.5	63,170	72.2	7,260	8.3
Vojvodina	96,810	61.1	43,334	27.3	18,343	11.6

The relatively larger share of income from work off the farm is characteristic both of the economically advanced and the economically less developed areas. For example, the share of income derived from work off the farm (according to 1979 figures) was rather high in Bosnia-Hercegovina (64.6 percent), Croatia (64.2 percent), Slovenia (61.2 percent) and Kosovo (58.2 percent). However, we should bear in mind that this is a reflection of specific production-economic and demographic circumstances in those areas. It can be assumed that a relatively larger income from work off the farm is achieved in relatively less developed areas through the development of incidental activities on the farm (cottage industry, various peasant crafts and trades, the gathering of nuts and berries and medicinal herbs and the like). In addition labor productivity in agricultural production is rather low in those regions. However, the relatively higher representation of income from work off the farm in the advanced regions objectively derives from achievement of higher productivity of labor of persons employed in activities off the farm.

An accompanying characteristic of the changes in the realization of income in rural households is the constant increase in the proportion of that income that is in the form of money, that is, the decrease in the proportion which is in kind. The increase in the money portion of income is resulting from both sources: first, through the development and expansion of that portion of agricultural production on the farm which is for the market, and second, by a growth of income through persons permanently employed off the farm.

The average share of money income in the total income of private farms increased from about 58.0 percent in 1965 to about 69.5 percent in 1980. It should also be pointed out that the increase in the money portion of total income in rural households is being achieved to a relatively greater extent by virtue of persons permanently employed off the farm than through development of agricultural production for the market. For example, in 1980 in the breakdown of average money income of all farms about 34 percent was obtained by work off the farm and about 66 percent of money income came from other sources. The size of the proportion of money income and the composition of money income with respect to sources vary from region to region for rural households. The share of money income in total income was as follows in that year by regions: about 75 percent in Bosnia-Hercegovina, 66.3 percent in Montenegro, 68.7 percent in Croatia, 78.9 percent in Macedonia, 73.8 percent in Slovenia, 66.5 percent in Serbia as a whole and 66.1 percent in Serbia proper, 68.4 percent in Kosovo and 66.5 percent in Vojvodina.

In all regions except Vojvodina the share of money income derived from off the farm was considerably greater than the portion of money income gained in agricultural production on the farm for the market. The reverse is the case in Vojvodina, where the conditions are considerably more favorable for an increase in agricultural production for the market.

As a result of expanding agricultural production for the market, there has also been a considerable increase in the money portion of income derived solely from work on the farm.

Taking the average for all private farms, the share of money income from the farm in total income from work on the farm increased from about 39 percent in 1965 to about 45 percent in 1980. However, we should bear in mind that the money portion of income on the farm is actually greater, since a portion of income in kind only appears to be so. This is because persons employed off the farm consume a sizable portion of agricultural production in the household together with the farmers. In this way a portion of income in kind represents a special kind of money income that is realized on the farm itself through an internal exchange between the farmers and the nonfarmers. This indicates that the process whereby income is less and less in kind and more and more in money and changes in the manner in which economic activity is conducted in agriculture, i.e., the decreasing proportion of on-farm consumption, are actually taking place faster than indicated by changes in the nominal composition of income from the farm. On the whole it can be observed that changes in the source of income and in particular the increase in the money portion of income both from production for the market and also from employment off the farm, represent the basic forms of the growth of income on private farms.

#### Influence of the Principal Production and Economic Factors and Social and Demographic Factors on the Realization of Income on Private Farms

##### a) Level and Composition of Income for Farms Grouped by Size of Their Landholding

Farms which have more land as a rule have more favorable conditions for development of agriculture and especially for that portion of production which is destined for the market. Thanks to the larger volume of agricultural production for the market these farms derive larger revenues and more income from production on the farm itself. However, on farms with less land more income is derived from work off the farm, since employment of members of the work force off the farm is relatively greater.

The level of total income per farm increases at a mild rate as the size of the landholding increases. If we take the income in the group of holdings under 2 hectares as 100, then the index number of income in that year was 126 in the group with a landholding between 2 and 3 hectares; 142 in the group between 3 and 5 hectares; 160 in the group between 5 and 8 hectares; and 217 in the group with more than 8 hectares of land (figures for 1980). It follows from these figures that the total income on private farms is not realized in proportion to the available amount of land, since the groups of smaller holdings supplement their income through higher employment off the farm and more intensive use of the land. That is why differences in the level of income by groups of farms based on the size of the landholding are somewhat smaller when income is analyzed per member of the farm household. For example, in the year analyzed farms with more than 8 hectares of land had 66.5 percent larger income per member of the household than in the group with less than 2 hectares.

However, when that portion of income from work on the farm, from agricultural production, is analyzed, we note considerably larger differences in level from one group of farms to the other based on the amount of land they have. For example, income from the farm in the group of farms with more than 8 hectares was in 1980 4.2-fold greater than in the group with less than 2 hectares.

Table 6. Level of Income by Groups of Farms Based on the Size of the Landholding

Farm Groups	Per Farm				Per Member of Household			
	1965		1980		1965		1980	
	Dinars	Index	Dinars	Index	Dinars	Index	Dinars	Index
Total	9,020	124	153,366	139	1,880	111	35,095	122
Less than 2 ha	7,268	100	110,679	100	1,690	100	28,748	100
2-3	8,467	116	139,223	126	1,841	109	32,681	114
3-5	9,135	125	157,401	142	18,643	110	34,746	121
5-8	11,142	153	176,992	160	2,102	124	37,091	129
More than 8 ha	12,500	172	239,809	217	2,358	140	47,866	166

If we divide the farm's income by the arable land used, we see a tendency for income to decrease as the size of the holding increases. If the income from the farm per hectare of land used in the group of farms with more than 8 hectares is taken as 100, then the index number of income for the other groups of farms is as follows: 193 in the group with less than 2 hectares, 149 in the group with between 3 and 5 hectares, and 100 in the group with between 5 and 8 hectares. This means that the land is being used more intensively on farms with relatively less land. As a rule these farms have more able-bodied members per farm (fulltime farmers and persons employed off the farm). That is why the more labor-intensive production operations (industrial crops, animal husbandry and vegetables) have a higher representation in the production of these farms.

Table 7. Structure of Income by Groups of Farms Based on Size of the Landholding With Respect to Sources of Income in Yugoslavia (figures for 1980)

Farm Groups	From Farm			Off Farm	
	Dinars	Percentage of	Percentage of	Dinars	Percentage of
		Total Income	Money Income		Total Income
Total	81,210	52.9	44.6	71,622	47.1
Less than 2 ha	38,361	34.6	30.1	72,318	65.4
2-3	70,759	50.8	42.9	68,464	49.2
3-5	84,999	54.0	40.4	72,402	46.0
5-8	104,925	60.0	48.0	68,997	40.0
More than 8 ha	160,249	66.8	54.9	79,560	33.2

It is also important to indicate the relationship between on-farm income and the representation of fulltime farmers on the farm by groups of farmers based on the size of their landholding. The level of on-farm income per fulltime farmer increases with an increase in the size of the landholding. If the level of income per farmer in the group of farms with less than 2 hectares is taken as 100, then the index number of this income is as follows by farm groups: 122 in the group with between 2 and 3 hectares, 127 in the group with between 3 and 5 hectares, 138 in the group with between 5 and 8 hectares, and 177 in the group with more than 8 hectares.

The figures clearly indicate that a higher level of labor productivity is achieved on farms with a larger landholding.

By contrast with on-farm income, the portion of income realized off the farm is in relative terms more uniformly distributed among groups of farms based on the size of their landholding. However, the highest average off-farm income is realized by farms with less than 2 hectares.

b) Comparative Survey of the Level and Composition of Income on "Pure" and "Mixed" Farms

The socioeconomic conditions and opportunities for realization of income on "pure" and "mixed" farms are determined above all by their specific production-and-economic and sociodemographic characteristics. We are referring especially to differences in the socioeconomic composition of able-bodied persons and the size of the landholding.

Income on "pure" farms is realized only by able-bodied persons (farmers) on the farm. On the "mixed" farms, however, income is realized both by able-bodied farmers as well as by members of the work force employed off the farm.

Table 8. Level and Composition of Income on "Pure" and "Mixed" Farms

Groups of Farms and Households	Per Farm		Per Capita		From Farm		Off Farm	
	Dinars	Index	Dinars	Index	Dinars	Share, %	Dinars	Share, %
In 1965								
Total	9,022	100	1,880	100	5,799	64.3	3,223	35.7
Farm ["pure"]	8,278	92	1,839	98	6,646	80.3	1,632	19.7
Mixed	10,982	122	1,997	106	5,538	50.4	5,444	49.6
In 1980								
Total	153,366	100	35,095	100.0	81,210	52.9	71,622	47.1
Farm ["pure"]	140,543	92	34,874	99.4	104,936	74.7	35,607	25.3
Mixed	162,730	106	35,223	100.4	63,943	39.3	98,787	60.7

Compared to the "pure" farms, the mixed farms earn more average income per farm and per member of the household. According to figures for 1980, "mixed" farms had an average income per farm which was about 11.6 percent greater than the "pure" farms, but their average per member of the household was only 1 percent greater. It is important to point out that the "mixed" farms in that year also had a higher average income per hectare of arable land.

By contrast with the "pure" farms, which derived about 25.3 percent of their income from work off the farm, according to the figures for 1980 the "mixed" farms realized about 60.7 percent of their total income from work off the farm.

The "mixed" farms are characterized by the fact that they derive a larger portion of their income than do the "pure" farms through exchange, i.e., in money form. The share of money income in total income in that year was 63.7 percent on the "pure" farms and 82.2 percent on the "mixed" farms.

However, in the structure of income from the farm, the share of the money portion is quite a bit smaller on the "mixed" than on the "pure" farms. According to figures for 1980, the money portion of on-farm income in total income was 53.0 percent on the "pure" farms and 34.5 percent on the "mixed" farms.

It follows from these figures, then, that the "mixed" farms also have a considerable motivation to develop agriculture and to increase their income derived from working on the farm.

On the "mixed" farms there is a high level of complementarity between income derived from the farm and income derived from work off the farm in carrying on reproduction and agricultural production. On the basis of the continuous inflow of money revenue and income from work off the farm, improvement of agricultural production is speeded up, so that production supplies are purchased in good time, the services of machines offered by organizations of associated labor or private owners are used. This means that income earned by working off the farm is used to speed up technical-and-technological progress of agricultural production. On this basis the "mixed" farms are raising labor productivity and income from agriculture on the farm. There is a considerable complementarity between the two sources of income in the final consumption of the "mixed" household.

Income earned from agricultural production on the farm, especially the portion of that income realized in kind, guarantees the increased purchasing power of that portion of income set aside for personal consumption, especially in the diet of members of the household. It follows in the light of these factors that the difference in level of income is actually greater to the advantage of the "mixed" farms than it appears in the nominal figures of the statistics.

### c) Differentiation of Private Farms With Respect to the Level of Income and Its Reflection on Changes in the Structure of Income by Sources

As a reflection of differences in the conditions for realization of income, i.e., of the influence of specific production, economic, sociodemographic and other factors on the farm, the private farms are differentiated to a considerable degree with respect to the level of income realized. According to 1979 figures, the breakdown of all farms in Yugoslavia by level of income is as follows: 12.2 percent under 50,000, 27.0 percent between 50,000 and 100,000, 40.2 percent between 100,000 and 200,000, 13.1 percent between 200,000 and 300,000, about 4.7 percent between 300,000 and 400,000 and 2.8 percent over 400,000.

The level of income on private farms by income groups does not [?] increase in proportion to the number of members of the household and the average amount of arable land used per farm.

Farms with the highest income have about 2.9-fold more members of the household and about 2.7-fold more members of the work force than those farms which have the lowest incomes per farm. The share of members of the work force realizing income off the farm in the total number of members of the work force increases from the ends of the range toward the middle income groups. The percentage of members of the work force employed off the farm in the total number of members of the work force was as follows by income groups: 10 percent in the first, 27 percent in the second, 37 percent in the third, 36 percent in the fourth, 36 percent again in the fifth, and 27 percent in the sixth.

There is a considerable dependence of income on the farm's available amount of arable land.

In the group with the highest income the area of arable land used is 6.71 hectares, that is, 202 percent more than in the first income group, which has the lowest income per farm.

The income of the private farm, then, is increasing on two bases: first, as a function of the increase in the number of members of the work force and the level of their employment in off-farm activities, and second, as a function of the amount of land available to the farm.

The level of income reflects significant differences in the structure of income by sources and in the representation of money income. In the first income group income from work on the farm represents 35.5 percent, while in the group with the highest income the income from the farm represents nearly three-fourths of total income. This structure of income has a considerable impact toward diminishing differences in the level of income. In terms of the total income per farm, the ratio between the first and seventh income groups in 1970 was approximately 1:19, while with respect to the level of income derived from work on the farm this ratio for these income groups was still more unfavorable; that is, the amount stood in a ratio of approximately 1:39.

Table 9. Distribution of Private Farms With Respect to Level of Income and Changes in the Structure of Income by Source and the Proportion of Money Income in 1980

Income Groups	Share of Income Groups			
	In Number of Farms	Members of Households	In Use of Arable Land	In Total Income
Total	100.0	100.0	100.0	100.0
Less than 50,000	12.2	6.3	8.7	28.0
50,000-100,000	27.0	22.6	20.7	14.1
100,000-200,000	40.2	44.4	39.8	38.8
200,000-300,000	13.1	16.4	17.1	21.4
300,000-400,000	4.7	6.0	7.6	10.8
Over 400,000	2.8	4.3	6.1	12.1

Table 9 (continued)

<u>Income Groups</u>	<u>Income From Farm</u>		<u>Money Income</u>	
	<u>Dinars</u>	<u>Share in Total Income, %</u>	<u>Dinars</u>	<u>Share in Total Income, %</u>
Total	81,210	50.4	110,679	72.2
Less than 50,000	12,321	35.5	27,592	79.5
50,000-100,000	37,516	46.9	54,667	68.3
100,000-200,000	68,935	46.5	102,728	69.4
200,000-300,000	134,563	53.9	174,587	69.9
300,000-400,000	216,146	60.7	252,145	70.8
Over 400,000	476,666	73.3	439,967	67.6

The rather high degree of differentiation of the farms with respect to total income is considerably diminished under the impact of employment and income earned off the farm.

The higher proportion of money income in the first income group follows from the considerably smaller consumption in kind, since relatively larger income is earned off the farm, and the household is in relative terms more oriented toward obtaining consumer goods through the market. However, the higher proportion of money income in groups with higher income is more the result of the high money income realized from both sources: that is, through the growth of agricultural production for the market and through higher employment off the private farm and outside agriculture.

#### Basic Changes in the Distribution of Income and Investments in Farming

Significant changes and patterns are occurring in the distribution of income under the influence of specific characteristics in the realization of that income with respect to the growth rates and sources of income on private farms. Because of the specific conditions of its realization all portions of income on private farms cannot represent identical socioeconomic content in distribution.

Income earned through persons employed off the farm represents in its socioeconomic content only resources by and large intended to meet needs in personal consumption of the employed person and his family. This is because in the distribution of income within the organization of associated labor where the employed person works resources have already been set aside to cover the cost of government and the social services, and the resources of social accumulation have also been set aside.

However, income from agricultural production on the farm represents in its socioeconomic content the entire material basis for satisfying both the needs of personal consumption within the household and also the broader social needs (government and social services) and also the needs of reproduction, i.e., accumulation. That integral nature of the socioeconomic content of this source of income on the private farm derives from its specific nature as a production-economic unit. That is why in the income of the production unit it is

necessary to find the total material and economic basis to meet both the needs of government and the social services on the one hand and also the needs for personal consumption in the household on the other. The latter income also includes resources for accumulation through which reproduction on the farm and the share in broader social reproduction are ensured.

The income contained in products consumed on the farm (that portion of personal consumption and of supplies for farming produced on the farm) also has certain specific economic features. As a nominal value this portion of income reflects a considerably larger real income, since in real terms a larger quantum of social needs is met through it.

The socioeconomic specificities of the various elements of income on private farms which have been referred to directly determine the type of social purpose and the socioeconomic character of meeting the needs for living and reproduction in the consumption of the household and the farm.

That is why in analyzing the distribution of income it is not possible to use theoretically precise economic categories. That is, in examining the various forms of consumption statistical definitions are mainly used.

The most important element in the structure of the distribution of income on private farms is personal consumption. However, the share of personal consumption in the distribution of income is displaying a constant declining tendency.

Table 10. Changes in the Structure of the Distribution of Income by Purposes  
(total income for the year = 100)

Type of Investment	1965	1970	1975	1977	1978	1979	1980
Total income distributed	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Personal consumption*	61.9	56.3	59.9	54.0	55.7	54.2	53.9
In money	34.5	34.9	42.1	37.3	38.0	34.4	33.9
In kind	27.4	21.4	17.8	16.7	17.7	19.8	20.0
Housing construction	2.6	3.5	4.7	3.9	4.8	4.3	4.2
Investment in reproduction	15.6	16.3	16.0	14.7	17.5	15.4	17.2
For the farm	7.9	8.3	7.8	6.7	8.2	7.0	6.3
For production	7.1	7.4	7.4	7.4	8.9	8.0	8.4
For incidental activities	0.6	0.6	0.8	0.6	0.4	0.4	0.6
Contributions and taxes	4.9	3.9	2.4	2.4	2.4	2.1	1.9
Repayment of debts	3.7	2.9	3.4	3.7	3.8	3.0	2.7
Unsold products	7.5	4.3	6.6	7.7	6.9	8.2	7.4
Cash savings	3.9	12.8	6.9	13.6	8.9	12.8	14.6

\* We are using here a rather more restricted definition of personal consumption than used in economic theory. In this paper personal consumption by and large covers the following: food and beverages, tobacco, clothing and footwear, housing, heating and electricity, housewares, hygiene and health care, education, culture and entertainment, transportation and postal, telephone and telegraph service, and other elements.

If the average is taken for all private farms in Yugoslavia, the share of personal consumption dropped from 62 percent in 1965 to 53.9 percent in 1980. The share of personal consumption in distribution of income was as follows in 1980 by regions: 63.2 percent in Bosnia-Hercegovina, 67 percent in Montenegro, 57.7 percent in Croatia, 52.4 percent in Macedonia, 53.1 percent in Slovenia, 49 percent in Serbia as a whole and 54.7 percent in Serbia proper, 70.4 percent in Kosovo and 34.3 percent in Vojvodina.

The second largest share in distribution of income on private farms consists of resources set aside from investment in the farm and agricultural production on the farm (capital investments in the farm, purchase of machines and implements for incidental activities, and also investment in agricultural production). The size of these resources increases in line with the growth of income. That is why the share of these resources in the structure of the distribution of income is increasing at a mild rate. Compared to total distributed income on the farm resources for reproduction amounted to 15.6 percent according to the figures for 1965 and 17.2 percent according to the figures for 1980. However, it is noticeable that of the total resources set aside for reproduction a relatively smaller share is intended for investments in the farm proper than for investment in agricultural production. The share of capital investments in distribution of total income dropped from 7.9 percent in 1965 to 6.3 percent in 1980. Over that same period the share of resources for investment in production increased from 7.1 percent of total income to 8.4 percent. This relationship in the use of resources for reproduction is a normal phenomenon in the socialist transformation of agriculture on private farms. By establishing links with the entirety of associated labor private farmers are making up for their increased needs for modern machinery by using the increasingly modern machines of cooperatives and other organizations of associated labor within the agroindustrial complex.

Resources for capital investment in the farm have been increasing relative to the level of income on the farm. Thus the share of these resources in total income earned on the farm increased from 14.3 percent in 1965 to 30.3 percent in 1980. This indicates that the basis for reproduction of the farm is growing faster than the level of income from work on the farm. In the period analyzed the income from work on the farm in real terms (in 1979 prices) increased from an average per farm of 36,534 dinars to 109,634 dinars, or about 300 percent, or threefold. Over that same period resources for capital investment in the farm increased from an average per farm of 5,229 dinars to 10,611 dinars, or 203 percent. Total investments set aside for investment on all farms are gradually being distributed to the economically stronger private farms, since the number of farms capable of carrying on reproduction in agriculture is decreasing. This is a consequence of the abandonment of agriculture and the elimination of private farms.

The third largest element in the distribution of total income realized in the peasant household represents money set aside which has been put in savings. The share of these resources in total distributed income in peasant households increased from only 3.9 percent in 1965 to about 14.6 percent. Over that period savings of peasant households has increased about 7.5-fold. Money savings has increased especially in the period since 1970, i.e., in years when

there was also an increased flow of resources realized through temporary employment abroad. This high level of money savings, which according to figures for 1980 was 10.0 percent greater than resources for capital investment, shows that the potential material capability for investment in expanded reproduction of the farm is actually quite a bit greater than the level of reproduction achieved.

The fourth element in the structure of the distribution of income on private farms represents that portion of income taking the form of farm products which have not been sold. This is the difference between inventories of finished products of plant production and livestock. Inventories of unsold finished products are increasing especially in the form of stocks of grain, especially corn. The growth of inventories of farm products in the storehouses of private farms, especially in recent years, are being intensified by the relatively unstable relations on the market. Stocks of grain, especially corn, are being saved in order to create a more stable economic basis for livestock production.

Sizable resources in distribution of income in peasant households are also being used for investments in housing construction. The share of these resources in total income distributed on private farms has increased from 2.6 percent in 1965 to 4.2 percent in 1980. Over that period, examined in 1979 prices, average resources per farm for investments in housing construction have increased 3.4-fold.

Resources for contributions and taxes show a tendency toward relative decline in the structure of total income distributed. The share of these resources in total income distributed on private farms dropped from an average of 4.9 percent in Yugoslavia in 1965 to only 1.9 percent in 1980.

Resources used to pay off debts are indicated separately in the distribution of income of peasant households. The share of these resources in the distributed income of peasant households dropped from 3.7 percent in 1965 to 2.7 percent in 1980. A good share of these resources represents capital for reproduction of the farm, since they are being used to make repayments of principal and to pay interest on credit used to purchase machines and to build farm buildings.

We can observe on the basis of an analysis that the changes and tendencies in distribution of income on private farms are a consequence of the specific nature of the conditions for realizing income and developmental opportunities for remaining in agriculture and the need to expand the material basis of reproduction.

7045  
CSO: 2800/306

PRICE OF FIRST DOMESTIC MICROCOMPUTER 'TOO HIGH'

Zagreb VJESNIK in Serbo-Croatian 25 Apr 83 p 3

[Article by Damir Mikulcic: "Computer Revolution--Our Way"]

[Text] The entire developed world is being inundated by the first wave of the tide that has suddenly fundamentally changed the working tools in a wide range of man's activities. The cause is the computer revolution, the consequences of which people (and not only in our country) are not entirely aware. Indications that something significant is happening are numerous, but the most significant one, for a noncomputer-oriented observer, is the host of advertisements that abound in foreign newspapers and magazines. Ads that promote so-called personal and professional computers, or microcomputers, of high computing power but at bargain prices compared with earlier ones, are more numerous than those for automobiles. And what an automobile is, we know.

Just recently even our newspapers have printed an ad by "Iskra" which offers to purchasers for "only" 1,880,000 dinars (188 million old dinars) a computer "Partner" which, and we quote, "replaces expensive, frequently inadequate, larger imported computers."

"Partner" is then, it seems, the first domestic swallow that announces the domestic computer spring. Who can resist such an offer when it is known that only few years ago, for a computer with 128 kilobytes of RAM, tens and hundreds of millions of (new) dinars had to be paid, and in dollars. However, the spring announced by the "Partner" brings a cloud that seriously over-shadows on the idyll of our inclusion in the world computer revolution.

To understand the good and bad sides of our computer swallow "Partner," we should turn our attention to the developed world and to the concept of the computer revolution. The first commercial computers intended for a wide-range of applications appeared about 20 years ago. Many of them have been in our country for about 10 years, and the so-called computer centers have become a synonym for progress and modern technology. Man has understood that somewhere out there, there exist some large computers, expensive and mystical machines that are used for data processing by banks, larger companies and government agencies. That, however, was not yet the computer revolution. That was an elitism in computer applications. As it is with every other revolution, this computer revolution could be started only when the masses stand behind it.

And this is exactly what is happening now. In other words, the time for it to take place has arrived. The time of a new technology for the production of computers has arrived. Exceptionally inexpensive ones.

That which only recently has been priced in the millions of dollars, today is measured by the thousands of dollars, something that had a 1,000 dollar tag is bought with 10 dollars.

Certainly, "old," expensive computers can still be used and certainly they cannot be blamed for such price slashing. Rather they are indirectly responsible for the rapid computer development that is still going on. Computer technology was improving because of a need for it, and an infinite number of electronic applications (not only in computers) led to semiconductor electronics, inexpensive and increasingly miniaturized. At that moment a few years ago, when computer manufacture became so inexpensive that it entered the range of an individual's or small businessman's buying power, a dialectic jump happened (it is still happening), the transformation of quantity to quality, and that is the computer revolution. Along with large general-purpose computers (also much less expensive than earlier ones), in the last year almost 3 million, of the small, so-called microcomputers were sold, whose prices were less than that of an average automobile. And that is only the beginning.

The computer revolution has indeed only started, though some thought that computers were something of an every-day technological constant: We were accustomed to data processing in some bank, remote from practical everyday life. But no!

All of what has occurred with computers up to now was similar to the flight of the Wright brothers, a few meters above the ground. The real flight to the heights that cannot be seen is ahead.

The technology of semiconductor elements, chips and microprocessors and their software today is at the pinnacle of the world's development. The time is coming when the industrial power of one country is not measured only by the number of tons of steel, but also in the number of microprocessors produced, which are employed not only in office computers but in industrial robots and an infinite number of other machines.

However, in this humble essay, our interest is only in an infinitesimal detail out of the great abundance from this new era that we are entering: our first microcomputer swallow named "Partner" and some reflections connected with it.

Remember, "Partner" is advertised in newspapers as "a result of our own development and manufacture" (by "Iskra"), and bears the tag of 188 million old dinars (or 23,000 dollars), which at first glance is very inexpensive. However, the fact is that it is indeed not inexpensive, not for someone who is at all computer-educated and informed about that industry. We are not talking about the mere well-known fact that many of our products (and in addition the question is not of "our" product, but of a typical example of the electronic "screwdriver" industry), are more expensive than foreign products. It

is sad that this "Partner" is at least five times more expensive than a comparable foreign product (I ask that "Iskra" refute my assertions with facts, I would be happy to be wrong). However, I have plentiful factual evidence about prices and microcomputer characteristics of various manufacturers from around the world.

It is true, and it is the only advantage of "Partner," that it can be obtained for dinars. But this is the whole tragedy of our entry into the computer revolution: The buyer pays for a dollar with at least 500 new dinars. If we compared this with some other products, the results would show that a "Stojadin" [a domestically produced automobile] would cost 150-million old dinars. It is obvious that with such prices our automobile emancipation would stay at the "directors automobile" level.

Why is it that this first computer sold here has attained such an astronomical price. Another question is, however, much more complex than these few food-for-thought facts. The lockout of foreign products from domestic commerce, through laws and government regulations, the nonexistence of foreign competition--certainly in this time of economic stabilization and lack of foreign currency--must and does favor domestic manufacturers into whose products domestic, dinar-based, work and knowledge is invested. However, in the case of the "Iskra" computer this is not so.

Here something different is going on. I hope there will be some more talk about that. Be that as it may, this is not the right path toward the computer revolution, because the profit from technological revolution can be derived only from its natural growth, not when the market is pruned while it is still a feeble fruit-tree, taking advantage of the restraint on import and the uneducated customer. The question is, in this country, of unbelievable windfall profit, from a new (foreign) technology, a windfall profit which one working organization, guarded by the import restricting regulations, may realize by taking advantage of other working organizations and interested individuals.

Such profits, in the competitive capitalistic world, it could be only dreamed of.

CSO: 2800/282

YUGOSLAVIA

BRIEFS

WORKERS ABROAD--Dr Djordje Jakovljevic, president of the federal committee for labor, health, and social welfare policy, and member of the Federal Executive Council, said that at present there are 1 million of our citizens abroad, of whom 590,000 are employed. Most of them are in West Germany (632,000, of whom 320,000 are employed), followed by Austria (170,000, of whom 95,000 are employed), France (78,000, of whom 42,000 are employed), Switzerland (86,000, of whom 70,000 employed), and Sweden (51,000). Among those employed abroad, 65 percent are men and 35 percent are women. About 67 percent of those employed are under 35 years of age, while 35 percent are skilled and specialized workers. Our workers remain abroad an average of 12 years. Since 1973 the number of our workers abroad has been gradually declining, but now there are 200,000 children of our workers of preschool and school-age abroad. Since 1971, 540,000 of our workers have returned from abroad, or 60,000 each year. In the last few years 45,000 workers have been returning each year. At the end of 1982, about 55,000 of our workers abroad were unemployed, and in the first months of this year an additional 10,000 were added to this. Many of those who return do not apply to employment offices, but of those who do, 40 to 50 percent (or 8,000 a year) get work in the socialized sector of the economy.  
[Excerpt] [Pristina JEDINSTVO in Serbo-Croatian 8 Apr 83 p 2]

BARTER TRADE--In the first quarter of this year the Yugoslav Economic Chamber approved 967 requests for barter transactions. The value of exports [contained] in these requests amounted to \$890 million and the value of imports, \$740 million. Most requests related to business with West Germany (275 requests), Italy (212), Austria (134); and 44 requests related to business deals with developed countries overseas. Those in the Economic Chamber say that barter transactions are now the basic orientation of work organizations in trading with developed Western countries and that more and more goods are being taken out of "normal" export and put in this category. Such an orientation is logical, considering that it is a relatively fast, sure, and effective way to acquire producer goods, but this does not take into consideration the increasingly obvious objections (especially in connection with the fact that prices for certain products through barter transaction increase by 25 percent and that there is no substantial earning of foreign exchange for general and common needs [as a result of such trade]). While Economic Chamber officials believe that such a practice, if it becomes established, will represent a big problem, business people say that there would not be as much export business as there has been without barter transactions. [Text] [Belgrade EKONOMISKA POLITIKA in Serbo-Croatian 9 May 83 p 12]

ELIMINATION OF BUSINESS SECRETS--The new law on the Social Accounting Service which is now in preparation will eliminate the concept of business secrets which is at present often misused to cover up the facts. SFRY Assembly delegates [preparing the new law] will have to resolve major questions, before the draft law can be drawn up, which assembly bodies have just now started discussing. One of the dilemmas facing them is whether the Social Accounting Service should be decentralized, whether the basis for its activity should be located in the republics and provinces, and [whether it should deal with] questions established on the basis of that which has been jointly agreed on. Such an approach has been energetically rejected because, according to the Constitution, the Social Accounting Service is a unified service for the entire country. The new law should also clarify the role of the Social Accounting Service in bankruptcy proceedings of those work organizations which have not covered their losses within the planned time limit. The Social Accounting Service would then probably take action jointly with sociopolitical communities. Such cooperation should eliminate the feeling that the Social Accounting Service is some kind of "gendarme" service, but should at the same time do away with voluntarism in implementing the legal provisions and reduce the influence of sociopolitical communities in application of the law. [Excerpt] [Belgrade BORBA in Serbo-Croatian 1 Jun 83 p 4]

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